



Pension Board

Tuesday 13 December 2016 at 6.30 pm

Board Room 5 - Brent Civic Centre, Engineers Way,
Wembley HA9 0FJ

Membership:

Members

Mr David Ewart

Councillor Crane

Councillor Kabir

Angela Cattermole

Bola George

Euton Stewart

Trevor Dawson

Independent Chair

Employer Representative

Employer Representative

Employer Representative (Other than Council)

Member Representative (Trade Union)

Member Representative (Trade Union)

Member Representative (Pension Scheme)

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For electronic copies of minutes, reports and agendas, and to be alerted when the minutes of this meeting have been published visit: democracy.brent.gov.uk

The press and public are welcome to attend this meeting

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members.

Item	Page
1 Apologies for Absence	
2 Declarations of Interests	
Members are invited to declare at this stage of the meeting, any relevant personal and prejudicial interests and discloseable pecuniary interests in any matter to be considered at this meeting.	
3 Minutes of the Previous Meeting	1 - 4
To approve the minutes of the previous meeting on 27 July 2016 as a correct record.	
4 Matters Arising (If Any)	
5 Breach of Internal Regulations	5 - 8
The purpose of this report is to notify Board Members of a breach of internal regulations.	
6 Pensions Regulator Questionnaire	9 - 118
The purpose of this report is to notify the Pension Board Members of a survey conducted by the Pensions Regulator that reviews the actual governance arrangements of the various schemes in the UK.	
7 New Regulatory Oversight for LGPS Pension Schemes	119 - 124
This report discusses recent changes brought about by the Public Services Pension Act 2013 ("The Act") which have changed the regulatory framework of the LGPS Pensions Scheme. The Board is asked to note that the Pension Fund will need to comply with the section 13 process of the Act, responding to all queries and requirements of Government's Actuary Department (GAD).	
8 Triennial Review	125 - 184

The purpose of this report is to bring a key Pensions Fund Sub-Committee report on the Triennial Review to the Pensions Board for notification purposes alone.

9 Actuarial Contract 185 -
186

The purpose of this report is to note that the actuarial contract is reaching the end of the contract. The Pension Fund Sub-Committee have agreed to extend it past year end to prevent any potential conflict and to have a full procurement process that results in a 3 year contract that does not end during the Triennial Review in future years.

10 Capita's LGPS Pension Administration Performance 2016 187 -
198

This report reviews the performance of the Capita Employee Benefits against the contract year during October 2015 – September 2016 and focuses on:

- Re-enrolment Performance
- Annual report on Capita's Performance
- Annual Benefits Statements

11 Exclusion of Press and Public

The following items(s) are not for publication as it/they relate to the following category of exempt information as specified in Schedule 12A of the Local Government Act 1972 namely: *Paragraph 3 – information relating to the financial or business affairs of any particular person (including the authority holding the information).*

Not for publication:

- Triennial Review – Appendices 2 & 3
- A section under 'Contract Performance' within the LGPS Pension Administration Performance Report

12 Any Other Urgent Business

Notice of items to be raised under this heading must be given in writing to the Head of Executive and Member Services or his representative before the meeting in accordance with Standing Order 64.

13 Date of Next Meeting

The next scheduled meeting of the Pension Board is on 2 February 2017.



Please remember to **SWITCH OFF** your mobile phone during the meeting.

- The meeting room is accessible by lift and seats will be provided for members of the public.



MINUTES OF THE PENSION BOARD Wednesday 27 July 2016 at 7.00 pm

PRESENT: Mr Ewart (Chair), Councillor Kabir, Trevor Dawson and Euton Stewart

1. **Apologies for absence**

Received from Angela Cattermole and Bola George

2. **Declarations of interests**

The Chair declared that he was a member of the London Borough of Ealing pension fund.

3. **Minutes of the previous meeting**

RESOLVED:

that the minutes of the meeting held on 2 February 2016 be approved as an accurate record of the meeting.

4. **Matters arising**

Communication of Pension Board business back to employees and scheme members

It was noted that this matter remained outstanding from the meeting held on 2 February 2016. The Chair asked that the matter be addressed by the Head of Employee Services.

5. **Chair's Annual Report outlining the work of the Board for 2015/16**

The Chair introduced his report which provided a summary of the work carried out by the Board covering the period from its inception and first meeting in July 2015 to March 2016.

RESOLVED:

that the annual report be noted and referred to the General Purposes Committee.

6. **A discussion on training needs in view of last year and the work programme**

The Chair suggested that the Board should make a modest claim for funding to support a training session for Board members and sought views on what areas the training might best cover.

Euton Stewart raised issues regarding how the administration of the pension scheme adapted to meet the changing circumstances when services were shared between authorities. He also asked who was responsible for pensions when undertakings were transferred to a private company. It was recognised that the arrangements around shared services had become an important issue and the effect this had on individuals needed to be taken up with the Head of Employee Services. The Chair felt some aspects of the issues raised represented a risk factor and asked that a report on such risk be prepared so that a decision on how best to address the issues could be taken.

RESOLVED:

that the Chair and the Head of Finance identify appropriate topics for including in a training session to be held prior to a meeting of the Board.

7. **Draft Annual Report (Pension Fund Annual Accounts)**

The Board considered the draft Annual Report and Accounts 2015/16 for the Pension Fund. Members noted the figures that showed in comparison to 2014/15 that contributions had increased by a small amount but that payments had increased by a large amount which meant a negative cash flow. It was also noted that the net return on investments was far lower and that this was a situation that could well extend into future years. Net assets had increased but not to the extent they had in the past. The figures also showed that the number of active members in the scheme was lower than the number of retired members meaning the fund was now a 'matured fund'.

The Chair commented that in the past investments had tended to be low performing and that improvements to this were being pursued, however in present times this would be difficult and that it would take a number of years.

The Board noted the Governance Compliance Statement which showed compliance with the guidance on the governance of the Local Government Pension Scheme.

A question was asked whether there was an element of risk to new member organisations joining the scheme and it was explained that this depended on the nature of the organisation but that a check was made that they held guarantees. It was asked if a check was made on the level of restructuring in the Council that reduced the number of posts and whether this would affect employees in the future. It was explained that the Triennial Review would address this.

Members were invited to email Gareth Robinson, Head of Finance, if they had any questions regarding the detail contained in the report.

RESOLVED:

that the Brent Pension Fund Annual Report and Accounts 2015/16 be noted.

8. **Final Response to Government Consultation on Pooling**

The Board considered a paper on the proposal for asset pooling in the LGPS. Gareth Robinson, Head of Finance stated that he would be providing a briefing note to members of the Board on the London CIV and that the proposal would require further discussion in the future. He outlined the proposals in the paper and explained that assets would be transferred to the CIV over a period of time with the first payment being transferred at the present time.

RESOLVED:

that the paper be noted.

9. **Update on Performance of Capita**

The Board considered the report on the pension administration contract performance by Capita during 1 October 2015 to 31 March 2016. The Chair stated that compared to the previous year performance in all areas had either improved or stayed the same. However, performance on the timeliness of cases involving payments was still only at 66.2%.

In the absence of the Head of Employee Services, the Board asked that the report be re-submitted to its next meeting and that an update be provided on performance regarding providing Annual Benefits Statements and how the Board would be involved in the re-letting of the contract when the present contract with Capita ended.

RESOLVED:

that the improvements in the performance of Capita be noted but that concern be expressed over the continuing poor performance on the timeliness of cases involving payments.

10. **Re-enrolment update**

The Board considered the update on re-enrolment but in the absence of the Head of Employee Services, was unable to fully consider the current position. In agreeing to defer the item to the next meeting of the Board, concern was expressed that this may be too far off.

RESOLVED:

that the update report be noted and resubmitted to the next meeting.

11. **Actuarial Review**

Gareth Robinson, Head of Finance, referred Board members to the circulated presentation slides. He referred to the expected 2016 valuation timeline and stated that this was presently on schedule.

NOTED

12. **Verbal Update on the Triennial Actuarial Review Progress**

This item was covered in discussion on the item above.

13. **Smaller Admitted Bodies and the Triennial Review report**

The Board considered the briefing note updating members on the impact of the Triennial Review and the increasingly differentiated risks attached to the Various Bodies.

RESOLVED:

that the report be noted.

14. **Any other urgent business**

None.

15. **Items for next meeting**

The Chair proposed that the business for the next meeting of the Board should include:


- an update from the Head of Employee Services on the two items above deferred to the next meeting
- a report on the risk framework
- possible update on the Actuarial Review (if available)
- update from the Head of Employee Services on complaints
- possible update on admitted bodies (if sufficiently progressed)

16. **Peter Goss**

The Board noted with regret that this was the last meeting at Brent Peter would support and wished him every success in his future.

The meeting closed at 8.05 pm

D EWART
Chair

 Brent	<p style="text-align: center;">Pension Board 13 December 2016</p> <p style="text-align: center;">Report from the Chief Finance Officer</p>
For Information Purposes	Wards affected: ALL
Breach of Internal Regulations	

1.0 Summary

- 1.1 The purpose of this report is to notify Board Members of a breach of internal regulations.

2.0 Recommendations

- 2.1 To note the report.

3.0 Detail

- 3.1 The Pension Fund Sub-Committee of November 8th were informed of a breach of internal regulations. The Pension Fund had added to its tracker funds in Quarter 1 2016, beyond the amount allowable (35%) with an individual body, due to the expectation that for appropriate investments within the CIV would soon become available. During the February Pension Fund Sub-Committee meeting, it should have been explicitly noted in the minutes that it would temporarily breach the internal regulations.
- 3.2 Since then, investment outperformance in passive equity has caused this element to grow to almost 45%. Furthermore, delays within the CIV have prevented the planned allocation of these monies to investments. It isn't practical to correct this anomaly immediately, given delays in the on-boarding timetable so the Pension Fund Sub-Committee were content with the position and any implied risk, which is minimal.
- 3.3 In February 2016, Pension Fund Sub-Committee were notified of the temporary £34m additional investment into two different mandates with Legal & General Tracker Funds. This cash came from the divestment of the Dimensional investment. The cash was placed with the Tracker Funds solely

for holding purposes till appropriate investments became available. Passive equity was the appropriate choice because they are very low cost and because they track the markets rather than specific investments. The risk is therefore limited to the innate risk of equity in the UK and globally and to LGIM's ability to maintain the appropriate share allocation within the tracker fund.

- 3.4 Delays in the CIV (collective Investment Vehicle) have caused problems for cash allocation and investment decisions. The Pension Fund Sub-Committee were also told about the officer intent to bring investment decisions to meetings in early to mid-2017. These decisions would arrive with the clear intent of both investing excess cash and reducing the passive equity closer to 30%, in-line with the Pension Fund's strategic investment allocation objectives.
- 3.5 LGIM UK Tracker Fund shrank by 0.41% in Quarter 1 but then rebounded to grow by 4.74% in Quarter 2 and 7.81% in Quarter 3. LGIM World Ex-UK Dev Equity grew by 2.62%, 8.89% and 8.26% in the same quarters. This growth led to the passive equity share of the Pension Fund rising close to 45%.
- 3.6 The London CIV was also recently very successful in reducing fees and charges on LGIM tracker fund products. Therefore, there was a clear benefit from the investment decision and the Government generally promotes use of tracker funds and low fee-based investment options to LGPS schemes, wherever possible.
- 3.7 The LGPS regulatory framework refers to not having more than 35% in one mandate established the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 has the effect of requirement not more than 35% of Unit Trust managed in one mandate. There are currently two different mandates as passive equity is split into the UK portion and the World-wide portion that does not include the UK. These mandates represent different policy objectives within the fund. The scheme is UK based and hence benefits from a UK-centred tracker fund. However, the Pension Fund also needs access to the potential for global sources of growth. Therefore, having two separate passive equity mandates de-risks the Pension Fund. Nonetheless, the Pension Fund has an internal policy of not having more than 35% of Unit trusts managed by any one body so there has been a breach of this internal requirement.
- 3.8 The new regulatory framework (The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1 November 2016. It requires a new investment strategy and a statement of that strategy to be published no later than April 1st 2017. The regulations transfer investment decisions and their consideration more fully to administering authorities within a new prudential framework. A paper on the new regulatory framework will go to the Pensions Board meeting in the New Year, as the detailed analysis is still taking place.

4.0 Financial Implications

- 4.1 There are no direct financial implications.

5.0 Legal Implications

- 5.1 The Pension Fund must have regard to its internal policies. These are contained within the council's current statutory Statement of Investment Principles under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the 2009 Regulations"). The current statement must be replaced by April 1st 2017 by the new Investment Strategy Statement under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the 2016 Regulations"). There has been a breach of the current statutory report, as the Pension Fund invested more than 35% of Unit trusts managed by a single body.
- 5.2 The Pension Fund must also have regard to the Schedule 1 to the the 2009 Regulations" until such time as the new Investment Strategy Statement is in place. As set out in the body of the report, the effect of the 2009 Regulations and the schedule is that no single mandate can be more than 35% of the Fund. No single mandate can be more than 35% of the Fund. The passive equity referred to in this report is split into two mandates, which are following two separate policy objectives, one to track the UK market and the other to track the World-wide market. If either of these mandates individually was to breach 35%, this would require the Pension Fund to contact the LGPS regulatory function. As set out in the report, this is the position.
- 5.3 The 2016 Regulations will give Pension Fund Sub-Committees greater flexibility over matters such as these but they must still have regard to the regulatory oversight that will remain to protect the LGPS schemes from imprudent decision-making.

6.0 Diversity Implications

6.1 Not Applicable

7.0 Staffing/Accommodation Implications (if appropriate)

7.1 Not Applicable

Background Papers

Contact Officers

Persons wishing to discuss the above should contact Gareth Robinson, Investment and Pensions Section, Finance, on 020 8937 6567, gareth.robinson@brent.gov.uk at Brent Civic Centre

CONRAD HALL
Chief Finance Officer

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 Brent	<p style="text-align: center;">Pension Board 13 December 2016</p> <p style="text-align: center;">Report from the Chief Finance Officer</p>
For Decision-Making	Wards affected: ALL
Pensions Regulator Questionnaire	

1.0 Summary

- 1.1 The purpose of this report is to notify the Pension Board Members of a survey conducted by the Pensions Regulator that reviews the actual governance arrangements of the various schemes in the UK.

2.0 Recommendations

- 2.1 Requests that the scheme manager takes into account member views in the questionnaire.
- 2.2 Ensures that the questionnaire is submitted at the earliest possible opportunity.

3.0 Detail

- 3.1 The questionnaire is an annual survey conducted to examine governance arrangements in practice. It is conducted to review the overall position of schemes in the UK.
- 3.2 While the Pensions Regulator has always had some limited impact on local authority's schemes, Public Services Pension Act 2013 has brought this into line with private sector schemes, in terms of governance arrangements.

4.0 Financial Implications

- 4.1 There are no direct financial implications.

5.0 Legal Implications

5.1 There is a legal obligation that the Pension Fund must respond to the Pensions Regulator in a timely manner.

6.0 Diversity Implications

6.1 Not Applicable

7.0 Staffing/Accommodation Implications (if appropriate)

7.1 Not Applicable

Background Papers

Attached Pensions Regulator Questionnaire

Contact Officers

Persons wishing to discuss the above should contact Gareth Robinson, Investment and Pensions Section, Finance, on 020 8937 6567, gareth.robinson@brent.gov.uk at Brent Civic Centre

CONRAD HALL
Chief Finance Officer

The Pensions Regulator Public Service Governance Survey 2016

THIS DOCUMENT IS INTENDED TO BE USED AS A GUIDE TO HELP YOU GATHER THE INFORMATION REQUIRED FOR THE SURVEY. PLEASE NOTE, HOWEVER, THAT WE NEED YOU TO COMPLETE THE QUESTIONNAIRE THROUGH THE ONLINE SURVEY LINK CONTAINED IN YOUR INVITATION EMAIL.

Thank you for taking the time to complete this survey.

The questions in the survey should be answered in relation to the scheme referenced in your invitation email. Where the scheme is locally administered, we mean the sub-scheme or fund administered by the local scheme manager.

Your responses will be kept anonymous unless you consent otherwise at the end of the survey. Linking your scheme name to your answers will help inform The Pension Regulator's engagement with you in the future.

This survey should be completed by the scheme manager or by another party on behalf of the scheme manager. You should work with the pension board chair to complete it, and other parties (e.g. the administrator) where appropriate.

SECTION A – BASIC INFORMATION

QA1. EVERYONE TO ANSWER

Which of the following best describes your role within the pension scheme?

Please select one answer only

1. Scheme manager or employee of the scheme manager*
2. Pension board chair
3. Pension board member
4. Administrator
5. Other (please specify):

**In this survey 'scheme manager' refers to the definition within the Public Service Pensions Act, e.g. the Local Authority, Fire and Rescue Authority, Police Pensions Authority, Secretary of State/Minister or Ministerial department.*

SECTION B – GOVERNANCE

The first set of questions is about how your pension board works in practice.

QB1. EVERYONE TO ANSWER

Does your scheme have a conflicts policy and procedure for pension board members?

Please select one answer only

1. Yes
2. No
3. Don't know

QB2. EVERYONE TO ANSWER

Does your scheme have a register of interests?

Please select one answer only

1. Yes
2. No
3. Don't know

QB3. EVERYONE TO ANSWER

Has your scheme developed policies and arrangements to help pension board members acquire and retain the knowledge and understanding they require?

Please select one answer only

1. Yes
2. No
3. Don't know

QB4. EVERYONE TO ANSWER

Thinking about the interaction between the pension board and the scheme manager (or employee of the scheme manager), which of the following applies to your scheme?

Please select all that apply and use the 'Other' option to specify any other ways in which the pension board and scheme manager interact

1. The scheme manager attends pension board meetings
2. The scheme manager commissions advice from the pension board
3. The pension board submits written reports to the scheme manager
4. The pension board chair has face-to-face meetings with the scheme manager
5. Other (please specify)
6. Don't know

QB5. ANSWER IF THE SCHEME MANAGER ATTENDS PENSION BOARD MEETINGS (QB4=1)

How often does the scheme manager, or an employee of the scheme manager, attend pension board meetings?

Please select one answer only

1. Every time the pension board meets
2. As required
3. Don't know

QB6. EVERYONE TO ANSWER

On a scale of 1 to 10, where 10 represents ‘very good’ and 1 represents ‘very poor’, how would you rate the pension board’s ability to...?

Please select one answer per statement

- a) Identify to the scheme manager where there are poor standards and/or non-compliance with legal requirements**

Very poor -----> Very good
 1 2 3 4 5 6 7 8 9 10 Don't know

- b) Set out recommendations to the scheme manager on addressing poor standards and/or non-compliance with legal requirements**

Very poor -----> Very good
 1 2 3 4 5 6 7 8 9 10 Don't know

- c) Advise the scheme manager on scheme regulations, the governance and administration requirements set out in legislation, and the standards expected by TPR**

Very poor -----> Very good
 1 2 3 4 5 6 7 8 9 10 Don't know

- d) Take or secure actions to address poor standards and/or non-compliance with legal requirements**

Very poor -----> Very good
 1 2 3 4 5 6 7 8 9 10 Don't know

QB7. EVERYONE TO ANSWER

If you would like to add any further comments in relation to this question (QB6), please use the space below.

.....

SECTION C – MANAGING RISKS

The next set of questions is about managing risks.

QC1. EVERYONE TO ANSWER

Does your scheme have documented procedures for assessing and managing risk?

Please select one answer only

- 1. Yes
- 2. No
- 3. Don't know

QC2. ANSWER IF SCHEME HAS PROCEDURES FOR ASSESSING & MANAGING RISK (QC1=1)

To what extent would you say your risk management procedures have contributed to establishing new or revised internal controls? Would you say they have...?

Please select one answer only

1. Contributed significantly
2. Contributed in some way
3. Not contributed at all
4. Don't know

QC3. EVERYONE TO ANSWER

Does your scheme have a risk register?

Please select one answer only

1. Yes
2. No
3. Don't know

QC4. ANSWER IF SCHEME HAS RISK REGISTER (QC3=1)

What are the top three governance and administration risks on your register?

Please write in

1. Risk 1:
2. Risk 2:
3. Risk 3:
4. Don't know

QC5. EVERYONE TO ANSWER

Which of the following best describes your administration services?

Please select one answer only

1. Delivered in house
2. Outsourced to another public body (e.g. a county council)
3. Outsourced to a commercial third party
4. Other (please specify):

QC6. EVERYONE TO ANSWER

Which of the following do you use to monitor and manage the performance of your administrators (whether in-house or outsourced)?

Please select all the options that apply

1. Performance metrics are set out in contracts or service level agreements
2. Administrators provide independent assurance reports
3. Independent auditors review the performance of administrators
4. Administrators deliver regular reports to the scheme manager and/or pension board on service provided
5. Administrators attend regular meetings with the scheme manager and/or pension board
6. Penalties are applied where contractual terms or service standards are not met
7. Other (please specify):
8. Don't know

SECTION D – ADMINISTRATION AND RECORD-KEEPING PROCESSES

The next set of questions is about administration and record-keeping.

QD1. EVERYONE TO ANSWER

Do you have processes in place to monitor scheme records for all membership types on an ongoing basis to ensure they are accurate and complete?

Please select one answer only

- 1. Yes
- 2. No (please use the space below if you would like to provide more information):
.....
- 3. Don't know

QD2. EVERYONE TO ANSWER

Does the scheme have an agreed process in place with employer(s) to receive, check and review data?

Please select one answer only

- 1. Yes
- 2. No
- 3. Don't know

QD3. EVERYONE TO ANSWER

What proportion of your scheme's employers provide you with timely, accurate and complete data as a matter of course?

Please write in a percentage. If you do not know exactly, please give an approximate percentage

- 1. %
- 2. Don't know

QD4. EVERYONE TO ANSWER

Does the scheme have a process in place for monitoring the payment of contributions?

Please select one answer only

- 1. Yes
- 2. No
- 3. Don't know

QD5. EVERYONE TO ANSWER

Does the scheme have a process in place for resolving contribution payment issues and assessing whether to report payment failures to TPR?

Please select one answer only

- 1. Yes
- 2. No
- 3. Don't know

SECTION E – DATA REVIEW

QE1. EVERYONE TO ANSWER

When did your scheme last carry out a data review exercise?

Please select one answer only

1. Within the last 12 months
2. More than 12 months ago
3. Never
4. Don't know

QE2. ANSWER IF SCHEME HAS CARRIED OUT A DATA REVIEW EXERCISE (QE1=1 OR 2)

What data did the review cover?

Please select one answer only

1. Data collected after 1 April 2015 but not before this date
2. Data collected before 1 April 2015 but not after this date
3. Data collected both before and after 1 April 2015
4. Other (please specify):

QE3. ANSWER IF SCHEME HAS CARRIED OUT A DATA REVIEW EXERCISE (QE1=1 OR 2)

Did your scheme's most recent data review exercise identify any issues or problems?

Please select one answer only

1. Yes
2. No
3. Don't know

QE4. ANSWER IF MOST RECENT DATA REVIEW IDENTIFIED ANY ISSUES OR PROBLEMS (QE3=1)

What action, if any, was taken to address the issues the review identified?

Please select all the options that apply

1. A data improvement plan was put in place or updated
2. A data cleansing exercise was carried out
3. Additional validation checks
4. Pensioner existence checks
5. Address chasing exercises
6. Further or improved member communications (e.g. reminding members to check their records are up to date)
7. Other (please specify):
8. No action taken
9. Don't know

QE5. ANSWER IF A DATA IMPROVEMENT PLAN WAS PUT IN PLACE/UPDATED (QE4=1)

What is the current end date for the data improvement plan you have put in place or updated?

1. MONTH: YEAR:
2. Don't know

QE6. ANSWER IF A DATA IMPROVEMENT PLAN WAS PUT IN PLACE/UPDATED (QE4=1)

What data does your improvement plan cover?

Please select one answer only

1. Data collected after 1 April 2015 but not before this date
2. Data collected before 1 April 2015 but not after this date
3. Data collected both before and after 1 April 2015
4. Other (please specify):

SECTION F – COMMUNICATIONS

The next set of questions is about communicating to members and resolving issues or complaints the scheme has received.

QF1. EVERYONE TO ANSWER

In 2016, what proportion of active members received their annual benefit statements by the statutory deadline?

Please write in a percentage. If you do not know exactly, please give an approximate percentage.

- 1. %
- 2. Don't know

QF2. EVERYONE TO ANSWER

Does the scheme do any of the following to assess and, where necessary, to improve, the effectiveness of its communications to members?

Please select all the options that apply

- 1. Research the views of members
- 2. Conduct an annual communications review
- 3. Have a communications plan
- 4. Review relevant innovations in technology that could improve member access to communications, including interactive tools
- 5. Seek feedback from the pension board's member representatives
- 6. None of the above
- 7. Don't know

SECTION G – RESOLVING ISSUES

QG1. EVERYONE TO ANSWER

In the last 12 months, how many complaints have you received from members or beneficiaries in relation to their benefits and/or the running of the scheme?

Please include all complaints, including those which have not entered the Internal Dispute Resolution (IDR) process. If you do not know exactly, please give an approximate number.

- 1.
- 2. Don't know

QG2. ANSWER IF ANY COMPLAINTS RECEIVED IN THE LAST 12 MONTHS (QG1>0)

Please list the top three types of complaints received (e.g. benefit payment delays, incorrect estimate of pension entitlement, inaccurate personal data held).

Please specify

- 1.
- 2.
- 3.
- 4. Don't know

QG3. ANSWER IF ANY COMPLAINTS RECEIVED IN THE LAST 12 MONTHS (QG1>0)

How many of these complaints have entered the IDR process?

1.
2. Don't know

SECTION H – REPORTING BREACHES

QH1. EVERYONE TO ANSWER

Does the scheme have procedures in place to allow the scheme manager, pension board members and others to identify and assess breaches of the law, and report these to TPR if required?

Please select one answer only

1. Yes
2. No
3. Don't know

QH2. EVERYONE TO ANSWER

In the last 12 months, have you identified any breaches of the law?

Please select one answer only

1. Yes
2. No
3. Don't know

QH3. ANSWER IF ANY BREACHES HAVE BEEN IDENTIFIED IN THE LAST 12 MONTHS (QH2=1)

What were the root causes of the breaches identified?

Please select all the options that apply

1. Systems or process failure
2. Failure to maintain records or rectify errors
3. Management of transactions (e.g. errors or delays in payments of benefits)
4. Failure of employers to provide timely, accurate or complete data
5. Other employer-related issues (please specify):
6. Conflicts of interest
7. Lack of knowledge and understanding
8. Something else (please specify):
9. Don't know

QH4. ANSWER IF ANY BREACHES HAVE BEEN IDENTIFIED IN THE LAST 12 MONTHS (QH2=1)

In the last 12 months, have you reported any breaches to TPR as you thought they were materially significant?

Please select one answer only

1. Yes
2. No
3. Don't know

SECTION I – GOVERNANCE AND ADMINISTRATION

The next set of questions is about your progress in addressing governance and administration issues.

Q11. EVERYONE TO ANSWER

What are the main barriers you face to improving the governance and administration of your scheme?

Please specify

.....

.....

.....

.....

Q12. ANSWER IF BARRIERS TO IMPROVING SCHEME GOVERNANCE & ADMINISTRATION (AT Q11)
And what steps are you currently taking to address these barriers?

Please specify

.....

.....

.....

.....

Q13. EVERYONE TO ANSWER

To what would you attribute any improvements made to the scheme’s governance and administration in the last 12 months?

Please select all the options that apply

1. Improved understanding of underlying legislation and standards expected by TPR
2. Improved understanding of the risks facing the scheme
3. Resources increased or redeployed to address risks
4. Administrator action (please specify):
5. Scheme manager action (please specify):
6. Pension board action (please specify):
7. Other (please specify):
8. Don't know

SECTION J – TPR PRODUCTS AND PERCEPTIONS

The final set of questions is about your views of TPR and its products.

QJ1. EVERYONE TO ANSWER

To what extent have you used the following products provided by TPR?

Please select one answer per product

	I am not aware of this	I am aware of this but have not used it	I have used this	Don't know
a) Public service section of the TPR website	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b) Public service code of practice	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c) Guide to issuing annual benefit statements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d) Guides to public service pension boards	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e) Public service toolkit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
f) Reporting breaches guidance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
g) Self-assessment tool	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
h) News by email service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

QJ2. ANSWER FOR ANY TPR PRODUCTS USED (CODE 3 AT QJ1a-h)

How useful did you find each of the following TPR products?

Please select one answer per product used

	Very useful	Fairly useful	Not very useful	Not at all useful	Don't know
a) Public service section of the TPR website	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b) Public service code of practice	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c) Guide to issuing annual benefit statements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d) Guides to public service pension boards	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e) Public service toolkit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
f) Reporting breaches guidance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
g) Self-assessment tool	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
h) News by email service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

QJ3. EVERYONE TO ANSWER

Are there any products you would like TPR to provide that it does not currently offer?

Please select one answer only

1. Yes (please specify):
2. No
3. Don't know

QJ4. ANSWER IF HAVE USED THE PUBLIC SERVICE SECTION OF TPR’S WEBSITE (QJ1a=3)

When did you most recently visit TPR’s website?

Please select one answer only

1. In the last month
2. 2-3 months ago
3. 4-6 months ago
4. 7-12 months ago
5. More than a year ago
6. Don’t know/ can’t remember

QJ5. ANSWER IF HAVE USED THE PUBLIC SERVICE SECTION OF TPR’S WEBSITE (QJ1a=3)

To what extent would you say you get what you want from the website when you visit it? Would you say you typically...?

Please select one answer only

1. Get everything you want
2. Get most of what you want
3. Get some of what you want
4. Do not get what you want
5. Don’t know

QJ6. EVERYONE TO ANSWER

Thinking about your overall perception of TPR, to what extent do you agree or disagree with the following words as ways to describe TPR?

Please select one answer per statement

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Don’t know
a) Informative	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b) Respected	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c) Authoritative	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d) Approachable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e) Straightforward	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

QJ7. EVERYONE TO ANSWER

Thinking now about how TPR operates, how effective do you think it is at improving standards in scheme governance and administration in public service pension schemes?

Please select one answer only

1. Very effective
2. Fairly effective
3. Neither effective nor ineffective
4. Not very effective
5. Not at all effective
6. Don’t know

SECTION K – ATTRIBUTION

That’s it. Thank you for completing this survey. Your responses will help TPR understand how schemes are progressing and any issues they may face, which will inform further policy and product developments.

QK1. EVERYONE TO ANSWER

Finally, what other parties did you consult with to complete this survey?

Please select one answer only

1. Scheme manager or employee of the scheme manager*
2. Pension board chair
3. Pension board member
4. Administrator
5. Other (please specify):
6. Did not consult with any other parties

**In this survey ‘scheme manager’ refers to the definition within the Public Service Pensions Act, e.g. the Local Authority, Fire and Rescue Authority, Police Pensions Authority, Secretary of State/Minister or Ministerial department.*

QK2. EVERYONE TO ANSWER

To inform TPR’s engagement going forward, they would like to build an individual profile of your scheme by linking your scheme name to your survey answers. This will only be used for internal purposes by TPR and your identity will not be revealed in any published report.

Are you happy for your responses to be linked to your scheme name and supplied to TPR for this purpose?

Please select one answer only

1. Yes, I am happy for my responses to be linked to my scheme name and supplied to TPR
2. No, I would like my responses to remain anonymous



Government Actuary's Department

LGPS ENGLAND AND WALES

Section 13 Dry Run Report

Date: July 2016
Author: Ian Boonin FIA
John Bayliss FIA



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1 Executive summary

In connection with the local fund valuations of the Local Government Pension Scheme (LGPS) from 2016, section 13 of the Public Service Pensions Act 2013 requires the Government Actuary to report on whether four main aims are achieved:

- > compliance: whether the fund's valuation is in accordance with the scheme regulations
- > consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS
- > solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund
- > long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund

We have carried out a "dry run" section 13 analysis based on the 2013 local valuations.

Compliance

We found no evidence of material non-compliance.

Consistency

We found inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make meaningful comparison of local valuation results unnecessarily difficult.

Solvency

For the two closed passenger transport funds, we are not aware of any plan in place to ensure solvency. Had this not been a dry run exercise we would have engaged with the administering authorities to discuss the need for plans to be put in place.

A number of amber flags were raised under this heading for the open funds. We may have engaged with some of these administering authorities to discuss the reasons behind these flags. However, none were red-flagged.

Long term cost efficiency

For the following funds we would have engaged with the administering authority to investigate in more detail whether the aims of section 13 were met:

- > Royal County of Berkshire Pension Fund
- > Somerset County Council Pension Fund

We may also have engaged with some other administering authorities who had a significant combination of amber flags if section 13 had applied as at 31 March 2013.

Future analysis

Based on our on-going experience of reporting under section 13(4) (including this dry run) we may change or add considerations, criteria, tests or metrics to the analysis in the future.



- 1.1 The Government Actuary has been appointed by the Department of Communities and Local Government to report under section 13 of the Public Service Pensions Act 2013 in connection with the Local Government Pension Scheme (“LGPS” or “the Scheme”) in England and Wales. Section 13 provides for a review of LGPS funding valuations and employer contribution rates to check that they are appropriate and requires remedial steps to be taken where scheme managers consider appropriate.

Aims of section 13

- 1.2 Section 13 will apply for the first time to the 2016 round of ninety-one separate fund valuations for the LGPS. Specifically, in relation to each fund within the LGPS, section 13 requires the Government Actuary to report on whether four main aims are achieved:
- > compliance: whether the fund’s valuation is in accordance with the scheme regulations
 - > consistency: whether the fund’s valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS
 - > solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund
 - > long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund

Purpose of the dry run

- 1.3 The Department of Communities and Local Government (“DCLG”) has asked the Government Actuary’s Department (“GAD”) to carry out a “dry run” based on the round of LGPS valuations completed as at 31 March 2013 to demonstrate how we may have approached our analysis had section 13 applied to those valuations. This dry run report is designed to help those administering authorities and their actuarial advisors to prepare for the 2016 round of valuations with some knowledge about how GAD might approach reporting under section 13 following the 2016 round of valuations.
- 1.4 Based on our on-going experience of reporting under section 13(4) (including this dry run) we may change or add considerations, criteria, tests or metrics to the analysis in the future.
- 1.5 In this dry run report we make no specific recommendations for remedial steps in relation to solvency and long term cost efficiency, as section 13 did not apply as at 31 March 2013. We do however highlight areas for some specific funds where the aims of section 13 are potentially not being met, and where we may have then sought further information and engagement before recommending remedial steps if section 13 had applied at 31 March 2013.



- 1.6 As part of the dry run analysis, we indicate in this report how the process following production of a draft report under section 13 might have progressed had section 13 applied in terms of engagement with administering authorities prior to finalisation of the report.
- 1.7 In some cases, the data initially provided or disclosed in the valuation report raised additional questions following our initial analysis and concerns raised were allayed following the provision of further information. This serves to highlight the importance of clear disclosure in the valuation reports and accurate provision of data from the local authorities and the actuarial firms.

Compliance

- 1.8 We found no evidence of non-compliance with the scheme regulations.

Consistency

- 1.9 Under the heading of consistency, we have found inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make meaningful comparison of local valuation results unnecessarily difficult.
- 1.10 The primary areas GAD has analysed are:
- > Common contribution rates
 - > Average actual contributions vs common contribution rate
 - > Assumptions
- 1.11 We have viewed consistency in two ways:
- > Presentational. Those aspects of the valuations for which we consider there is no particular justification for differences in disclosure between different funds. This includes results disclosures (i.e. presenting the key results in a similar format) and agreeing a common understanding of terms such as the common contribution rate ("CCR"¹) even if these are not explicitly defined in regulations.
 - > Evidential. Those aspects of the valuations that should be consistent except where supported by evidence or local circumstances (e.g. some demographic assumptions). On financial assumptions, we believe that local circumstances may merit different assumptions (e.g. current and future planned investment strategy, different financial circumstances) leading to different levels of prudence adopted. However, in some areas, it appears that the choice of assumptions is highly dependent on the "house view" of the particular firm of actuaries advising the fund, with only limited evidence of allowance for local circumstances.

¹ CCR has been replaced by primary and secondary rates in regulation 62.



- 1.12 There is a wide range of reasonable assumptions for uncertain future events, such as the financial assumptions. For the avoidance of doubt, we have not concluded that any of the approaches, taken in isolation, are unreasonable. However the approaches are not consistent with each other, and it is not clearly explained in valuation reports whether the relevant assumptions, and hence differences in those assumptions between funds, are solely driven by local circumstances. Furthermore, there would also seem to be no common understanding of what constitutes “prudence” for the purposes of regulation 58 of the Local Government Pension Scheme Regulations 2013, and its reference to CIPFA guidance.
- 1.13 We are not expecting the immediate prescription of assumptions. Nevertheless readers of the reports might expect there to be consistency, and that transparent comparisons can be made between funds.
- 1.14 We are only able to conclude under section 13(4)(b) of the PSPS Act 2013 Act that ‘the valuation has been carried out in a way which is not inconsistent with other valuations’, if the valuations are carried out in consistent manner. Currently, in our opinion, the valuations are not carried out consistently.
- 1.15 We appreciate that there are significant challenges to achieving full consistency, particularly in the short term. In the longer term, we would however expect a narrowing of the range of assumptions used, where local experience cannot be used to justify differences.
- 1.16 We are grateful to the SAB Cost Management and Contributions sub-committee and the SAB Secretariat for developing a standard basis and metrics to enable comparisons between funds and we recommend that the valuation results on the SAB standard basis and associated “dashboard” metrics are published in valuation reports to allow readers to make like for like comparisons.
- 1.17 We recommend that the four actuarial firms who advise administering authorities in carrying out funding valuations should seek to agree a standard way of presenting relevant disclosures in their valuation reports to better facilitate comparison.

Solvency

- 1.18 Under the heading of solvency, we found that a number of our assessment measures were triggered by the two Passenger Transport funds, West Midlands Integrated Transport Authority Pension Fund and South Yorkshire Passenger Transport Authority Pension Fund. These funds are both closed to new entrants. In particular we might have sought to better understand whether the relevant administering authorities had a plan in place to ensure that the fund continues to meet benefits due in an environment of no future employer contributions being available, if section 13 had applied as at 31 March 2013.
- 1.19 A number of amber flags were raised under solvency for the open funds. Had section 13 applied, we may have engaged with some of these administering authorities, particularly where there was significant combination of amber flags, to discuss reasons behind these flags. However, none were red-flagged. Please see table 5.2 for further detail.



- 1.20 We have also highlighted the ten funds with the lowest funding level on the Scheme Advisory Board's ("SAB") standardised basis. Had section 13 applied, we may have engaged with some of these funds to better understand how they intended to improve their funding position.
- 1.21 We believe it is important that administering authorities and other employers understand the potential cost, so that they can understand the affordability of potential future contribution requirements.
- 1.22 The local valuations and our calculations underlying this dry run report are based on specific sets of assumptions about the future. To help the understanding of the potential for volatility in contributions, we estimate that the aggregate impact on contributions under a financial crisis scenario, similar to the 2008 financial crisis, is an increase in contributions of between £1.7 and £4.9 billion per year (compared with the actual outturn from the 2013 valuations of £6.6 billion).
- 1.23 A more detailed description of the tests and triggers alluded to in the tables below can be found in the relevant sections of this report and are not repeated in this executive summary.

Table 1.1: Funds with a material combination of amber and/or red flags

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
SOUTH YORKSHIRE PTA ²	25.2 (1)	114%	NO	100%	+5%	+3%	N/A
WEST MIDLANDS ITA ⁴	25.1 (2)	100%	NO	100%	+5%	+7%	N/A

Long term cost efficiency

- 1.24 For the following funds we would have engaged with the administering authority to investigate whether the aims of section 13 were met, had section 13 applied:
- > Royal County of Berkshire Pension Fund
 - > Somerset County Council Pension Fund

² The **Employer Default** measure is shown as N/A because there are no statutory employers participating in these two closed funds.



Table 1.2: Funds with a material combination of amber and/or red flags

PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
BERKSHIRE	5.9 (78)	4%	34	6%	-2%	-0.5%	-3	No
SOMERSET	5.9 (80)	5%	24	6%	-1%	0.0%	0	No

1.25 A number of other funds have triggered flags. We do not consider that these funds are failing to meet the aims of section 13, but we may have encouraged these other funds to provide further information regarding the relevant measures. Please see table 6.2 for further details.



2 Introduction

This report summarises GAD's "dry run" review of the actuarial valuations of the Local Government Pension Scheme as at 31 March 2013 as if section 13 of the Public Service Pensions Act 2013 had been in force at that date with the Government Actuary as the appointed person under section 13.

We have looked at a range of metrics to identify exceptions. Remedial steps may have been recommended where there is a potentially material or potent combination of negative outcomes against those metrics which is not satisfactorily explained or justified. Failure against one metric may not by itself always lead to remedial action being recommended.

- 2.1 This report is addressed to the DCLG. GAD has prepared this paper to set out the results of our review of the 2013 funding valuations of LGPS as if section 13 of the Public Service Pensions Act 2013 ("section 13" of "the Act") as it pertains to LGPS had been in force as at 31 March 2013.
- 2.2 Section 13 will apply for the first time to the valuations as at 31 March 2016. This report therefore does not have authority under the Act. Instead it serves as a "dry run" to assist stakeholders in preparing for the 2016 round of LGPS funding valuations, and is hereafter referred to as the "dry run report". We expect our report following the 2016 valuations to comprise more in-depth analysis in some areas. In relation to exceptions (this term is described below), we refer to action we may have taken had section 13 applied as at 31 March 2013.
- 2.3 Subsection (4) of section 13, requires the Government Actuary to report on whether the four main aims are met:
 - > Compliance: whether the fund's valuation is in accordance with the scheme regulations
 - > Consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within LGPS
 - > Solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund
 - > Long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund
- 2.4 Section 13, subsection (6) states that if any of the aims of subsection (4) are not achieved,
 - a) the report may recommend remedial steps;
 - b) the scheme manager must—



- (i) take such remedial steps as the scheme manager considers appropriate, and
- (ii) publish details of those steps and the reasons for taking them;
- c) the responsible authority may—
 - (i) require the scheme manager to report on progress in taking remedial steps;
 - (ii) direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.

Purpose of this paper

- 2.5 The purpose of this paper is to provide stakeholders with information about:
- > the tests and metrics we have used to assess whether the aims of compliance, consistency, solvency and long term cost efficiency have been achieved;
 - > an indication of how funds performed against the chosen metrics; and
 - > how we determined exceptions.
- 2.6 This report is designed to help those authorities prepare for valuations from 2016 onwards, when section 13 will be in force.
- 2.7 This paper will be of relevance to LGPS stakeholders including DCLG, the Chartered Institute of Public Finance & Accountancy (CIPFA), administering authorities and other employers, actuaries performing valuations for the funds within LGPS, SAB (or, where relevant, interim board) and HM Treasury (HMT).

Exceptions

- 2.8 Exceptions occur where funds appear to be materially out of line with other funds, or out of line with what we might have expected based on our judgement and our interpretation of solvency and long term cost efficiency.
- 2.9 We have had regard to the particular circumstances of some potential exceptions, following consultation with the fund actuary. This informal consultation has enabled us to explore in greater depth the issues identified and understand the fund's specific circumstances. We may conclude in the light of that engagement that administering authorities and employers are taking appropriate action and that the outcome is reasonable given the circumstances.
- 2.10 We have looked at a range of metrics to identify exceptions under solvency and long term cost efficiency. We have expressed these in the form of green, amber or red flags. In broad terms, a red flag or a combination of amber flags would tend to indicate a need for further investigation and/or engagement with the relevant administering authority and their actuary. The trigger points for these flags are based on a combination of absolute measures and measures relative to the bulk of the funds in scope.



- 2.11 More detail is provided in the solvency and long term cost efficiency chapters and appendices. It should be noted that these flags are intended to highlight areas for further investigation, but green does not indicate a clean bill of health and also that the fact we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions.
- 2.12 Local valuation outputs depend on both the administering authorities' Funding Strategy Statements and the actuary's work on the valuation. We have reported where valuation outcomes raised concerns in relation to the aims of section 13, but it is not our role to express an opinion as to whether that conclusion was driven by the actions of authorities or their actuary, or other stakeholders.
- 2.13 The Environment Agency Closed Pension Fund is different from other LGPS funds, in that the benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs³, thus guaranteeing the security of these benefits. In general, the fund has been excluded from the analyses that follow.

Remedial steps

- 2.14 Section 13 does not prescribe what remedial steps may be recommended, but for example they could include:
- > that the administering authority consider and report on an issue (e.g. if a closed scheme has no plan in place);
 - > that the administering authority strengthens scheme governance, for example by making changes to a section 101 committee or pensions board;
 - > that a revised approach be taken at the next valuation; and
 - > that the current valuation be reopened and changes made to employer contributions in advance of the next valuation.
- 2.15 Remedial steps may be recommended if there is a potentially material combination of negative outcomes against those metrics which is not satisfactorily explained or justified. Failure against one metric may not by itself lead to remedial steps being recommended.
- 2.16 This report contains specific reference to those funds considered to be exceptions. Had section 13 been in force for the 2013 valuations, we would have expected to engage with the relevant administering authorities named in this report.
- 2.17 Our aim in producing this dry run report is to encourage, where appropriate, administering authorities to consider taking steps to change the approach taken to the 2016 valuation.

³ <http://www.lgpsboard.org/images/Valuations2013/EnvironmentAgencyClosedFund2013.pdf>



Limitations

- 2.18 We recognise that the use of data and models has limitations. For instance, the data that we have from valuation submissions and publicly available financial information is likely to be significantly less detailed than that available to funds. Our risk assessment framework enables us to broadly assess scheme risks and decide on our engagement with schemes on an indicative basis.
- 2.19 Although much of the analysis, particularly the calculations we have undertaken, is approximate, we consider it to be sufficient for the purposes of identifying which funds could be subject to recommendation for remedial steps. While the measures used should not represent targets, these measures help us determine whether a more detailed review is required; for example, we may have highlighted where multiple measures are triggered amber for a given fund.
- 2.20 For some measures under solvency and long term cost efficiency, data were not available. We expect that data will be available for the section 13 work following the 2016 valuations.
- 2.21 We have not considered the impact of post valuation events except to the extent that these may have already been taken into account in the valuation disclosures.

Data on contributions paid

- 2.22 We were provided by the actuarial firms with data on average contributions expected to be paid into each fund. We also had access to data published by DCLG in their LGPS funds local authority data: 2014 to 2015⁴ (referred to elsewhere in this report as SF3 statistics). Both sources covered only the 2014-15 financial year (being the first year in which rates recommended in the 2013 valuations were expected to apply).
- 2.23 There were significant differences between these two data sources. For some funds, this may be further complicated by the stepping process (in which employers gradually shift towards the contribution rate recommended by the actuary over a few years). This meant we had to decide which was likely to be more reliable. We opted to base our calculations on the SF3 statistics.
- 2.24 Our data request following the 2016 valuations will seek further information, including all three years' expected contributions from 2017/18 – 2019/20. The discrepancy highlighted above is a cause for concern, which we aim to eliminate by requesting clearer explanations of what the data contains from the actuarial firms.

Standardised basis

- 2.25 There are significant areas of inconsistency highlighted in chapter 4, which make meaningful comparison of valuation results set out in local valuations reports unnecessarily difficult.

⁴ <https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-local-authority-data-2014-to-2015>



- 2.26 To address this, we have restated the results on two bases:
- > The standard basis established by the SAB
 - > A market consistent basis derived by us
- 2.27 The market consistent basis is a best estimate as at 2013, based on our views of returns on each asset class across the Scheme. We expect this basis to change for 2016, based on conditions at the time and any other relevant factors.
- 2.28 The restatement to these standardised bases has been done approximately. For example, if results for different employers within a particular fund are produced on different bases, our restatement process would not be able to pick up that level of detail, and the restated results could be incorrect if a particular employer was material in relation to the overall assets and liabilities of that fund.
- 2.29 The data request for the 2016 exercise will explicitly ask for liabilities expressed on the SAB standard basis which should eliminate this potential error.
- 2.30 This use of standardisation does not imply the bases are suitable to be used for funding purposes:
- > The SAB standard basis is not market consistent, and
 - > The market consistent basis is a best estimate (while regulations and CIPFA guidance call for prudence to be adopted). This best estimate is based on the average investment strategy for the overall scheme, and so will not be pertinent to any given fund's particular investment strategy. Further this does not take into account any anticipated changes in investment strategy that may be planned/in train.

Sensitivities

- 2.31 The local valuations and our calculations underlying this dry run report are based on specific sets of assumptions about the future. Some of our solvency measures are stress tests but these are not intended to indicate a worst case scenario. Following the 2016 valuations, we intend to illustrate a range of potential outcomes. In the solvency chapter of this report we have added an indication of the estimated aggregate impact on contributions under a financial crisis scenario, similar to the 2008 financial crisis.

Future review

- 2.32 Based on our on-going experience of reporting under section 13 (including this "dry run" report) we may add additional considerations, criteria, tests or metrics to the analysis. It is currently our intention that we will endeavour to consult (informally or formally), or forewarn, stakeholders in advance of adding such additional considerations/criteria.



- 2.33 We note that following the publication of the dry run report, there may be changes to regulations and approaches to local valuations in 2016 and beyond, which could lead to changes in the items analysed, under consistency for example, in future iterations of section 13.

Appendices

- 2.34 Appendices are contained in a separate document.
- 2.35 We reproduce section 13 of the Act in Appendix A. Other relevant regulations are reproduced in Appendix B. Appendix C contains a description of data provided. Appendix D contains descriptions of standardised assumptions used. Appendix E contains descriptions of measures for Solvency. Appendix F contains a table of measures under solvency by fund. Appendix G contains descriptions of measures for long term cost efficiency. Appendix H contains a table of measures for long term cost efficiency by fund.

Other important information

- 2.36 GAD has no liability to any person or third party for any act or omission taken, either in whole or in part, on the basis of this report. No decisions should be taken on the basis of this report alone without having received proper advice. GAD is not responsible for any such decisions taken.
- 2.37 In performing this analysis, we are grateful for helpful discussions with and cooperation from
- > CIPFA
 - > DCLG
 - > Fund actuaries
 - > HMT
 - > LGPS Scheme Advisory Board
- 2.38 We have conducted our analysis assuming that the *desirability* of stable contributions is subordinate to the *requirement* for solvency and long term cost efficiency under the relevant legislation.
- 2.39 We understand and assume that there is no regulatory authority assumed by or conferred on the Government Actuary in preparing this or any future section 13 report, and neither does the appointment to report under section 13 give the Government Actuary any statutory power to enforce actions on scheme managers (or others).
- 2.40 The modelling underlying this report has been prepared in accordance with the Board for Actuarial Standards' Technical Actuarial Standard M: Modelling. The report complies with TAS M and TAS R: Reporting.



3 Compliance with scheme regulations

We have relied on statements of compliance with regulations by, and professional requirements on, the actuaries performing the valuations of LGPS funds. We have performed some spot checks of compliance, and investigated further where funds are identified as exceptions using the metrics set out in this chapter.

We found **no evidence of non-compliance** with the scheme regulations.

- 3.1 There are a number of regulations that administering authorities are required to comply with when producing their respective valuation reports, funding strategy statements ("FSS") and statements of investment principles ("SIP").
- 3.2 These regulations are:
- > Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 for valuation reports;
 - > Regulation 35 of the same regulations for FSSs; and
 - > Regulation 12 of the LGPS (Management and Investment of Funds) Regulations 2009 for SIPs.
- 3.3 These regulations include reference to CIPFA guidance on preparing and maintaining a FSS in the LGPS 2012.
- 3.4 From 1 April 2014, regulations 62 and 58 of the Local Government Pension Scheme Regulations 2013 will apply to valuation reports and FSSs respectively. We understand that CIPFA's FSS guidance is being updated prior to the completion of the 2016 valuations. However, for the purposes of this report compliance has been checked against the regulations in place as at 31 March 2013, as detailed above⁵. We are not lawyers and have performed these checks as a lay reader of the regulations. We do not expect changes in regulations to have a material effect to this approach.

Selecting funds based on predetermined criteria

- 3.5 In order to investigate the compliance of fund documentation with the regulations detailed above the following two approaches have been used:
- 1) Selecting funds based on predetermined criteria; and
 - 2) A risk based approach.

⁵ Copies of the regulations listed on this page can be found in Appendix B of this report.



3.6 When selecting funds based on predetermined criteria, we selected funds that were different types of authority (i.e. a London Borough, a Welsh Authority, a County Council and a Metropolitan Authority) and which used different actuarial advisors.

3.7 The four selected funds under these criteria were:

- > The Royal Borough of Kensington and Chelsea Pension Fund (*Barnett-Waddingham*);
- > Cardiff and Vale of Glamorgan Pension Fund (*Aon Hewitt*);
- > Northamptonshire Pension Fund (*Hymans Robertson*); and
- > South Yorkshire Pension Fund (*Mercer*).

3.8 All four funds had short paragraphs in each of the respective documents stating that they had complied with the relevant regulations.

Selecting funds using a risk based approach

3.9 Under the second, risk based approach, compliance was investigated where funds were flagged as being of concern based on comparison with other funds' solvency or long term cost efficiency.

3.10 The four open funds that were of interest to us are:

- > Royal County of Berkshire Pension Fund;
- > Somerset County Council Pension Fund;
- > London Borough of Waltham Forest Pension Fund; and
- > City of Westminster Pension Fund.

3.11 All four funds had short paragraphs in each of their respective documents stating that they had complied with the relevant regulations.

3.12 The two closed funds that were of interest to us are:

- > South Yorkshire PTA Pension Fund; and
- > West Midlands ITA Pension Fund.

3.13 Both these funds were flagged under our solvency measures. A check of the funds' respective valuation reports showed that both had stated that they had complied with the relevant regulations.

3.14 Therefore we would need to make further enquiries with the funds to determine how they meet the requirements of regulation 36(5) of the LGPS 2008 Administration regulations, in particular the requirement for employers to pay sufficient contributions, expressed as a percentage of pay of the active members, to ensure the solvency of the fund.



- 3.15 In our data request for the 2016 section 13 work we intend to seek additional information on how funds ensured compliance with the relevant regulations and request that this be consistently documented between actuarial advisors.



4 Consistency between valuations under the scheme regulations

We viewed consistency in two ways: presentational and evidential. Whilst none of the individual approaches taken are unreasonable, they are not consistent and some variations in assumptions seem to be based on only limited allowance for local circumstances.

We found inconsistencies in the following areas, and recommend the four actuarial firms agree an approach to ensuring each is more readily comparable following 2016 and subsequent valuations.

- > The interpretation of the common contribution rate (CCR) disclosed in the valuations
- > Average actual contributions vs CCR
- > The assumption concerning the amount of commutation
- > The assumption for expected pensioner mortality
- > The derivation of discount rates used for the valuations
- > The assumption used for real earnings growth

If a similar approach is retained for the 2016 valuations we expect to still conclude that the consistency aim of section 13 is not met. Therefore, as an initial step towards achieving consistency, we recommend that the four actuarial firms seek to agree a standard way of presenting the valuation results on the SAB standard basis and associated “dashboard” metrics and other relevant disclosures to permit comparison in their valuation reports. GAD is prepared, if required, to help facilitate these discussions.

- 4.1 Section 13(4)(b) states that actuarial valuations should be carried out in a way which is not inconsistent with other valuations completed under the scheme regulations. For the purposes of this section GAD has, in line with Explanatory note 88 of the Act, taken “other valuations” to mean valuations of other funds within LGPS as at 31 March 2013.
- 4.2 After consultation with stakeholders, we interpreted “not inconsistent” to mean that methodologies and assumptions used, in conjunction with adequate disclosure in the report, should allow comparison by a reader of the reports. We explain this further below. We found that there are inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make meaningful comparison of local valuation results unnecessarily difficult.



4.3 In this chapter we highlight inconsistencies that cannot, in our opinion, be justified by local considerations. The primary areas GAD has analysed are:

- > Common contribution rates (“CCR”)
- > Average actual contributions vs CCR
- > Assumptions

We also looked at smoothed asset values and post valuation asset returns as aspects adopted by one of the firms, but not the others.

4.4 In many cases we found there is a considerable amount of consistency in these areas between funds advised by the same firm of actuarial advisors, but inconsistency between funds advised by different actuarial advisors. In this chapter, where relevant, we refer to the relevant actuarial firms as a proxy to listing out the funds that those actuarial firms advise. The charts in this chapter clarify the actuarial firm advising each fund.

4.5 We consider that readers of LGPS valuation reports might expect there to be consistency, and that transparent comparisons can be made between funds.

4.6 We have viewed consistency in two ways:

- > Presentational. Those aspects of the valuations for which we consider there is no particular justification for differences in disclosure between different funds. This includes results disclosures (i.e. presenting the key results in a similar format) and agreeing a common understanding of terms such as CCR⁶, even if these are not explicitly defined in regulations.
- > Evidential. Those aspects of the valuations that should be consistent except where supported by evidence or local circumstances (e.g. some demographic assumptions). On financial assumptions, we believe that local circumstances may merit different assumptions (e.g. current and future planned investment strategy, different financial circumstances) leading to different levels of prudence adopted. However, in some areas, it appears that the choice of assumptions is highly dependent on the “house view” of the particular firm of actuaries advising the fund, with only limited evidence of allowance for local circumstances.

4.7 There is a wide range of reasonable assumptions for uncertain future events, such as the financial assumptions. For the avoidance of doubt, we have not concluded that any of the approaches, taken in isolation are unreasonable. However the approaches are not consistent with each other, and it is not clearly explained in valuation reports whether the relevant assumptions, and hence differences in those assumptions between funds, are solely driven by local circumstances. Furthermore, there would also seem to be no common understanding of what constitutes “prudence” for the purposes of regulation 58 (reproduced in Appendix B) of the scheme’s regulations and its reference to CIPFA guidance.

⁶ CCR has been replaced by primary and secondary rates in regulation 62.



- 4.8 In the case of LGPS, a scheme split into a number of different funds, inconsistencies in the approach to doing the valuation and the way in which assumptions are set, hinders transparency.
- 4.9 We have illustrated the effects of inconsistencies by restating the local valuation results on a standardised basis specified by the SAB (the SAB standard basis) and also on a market consistent, best estimate basis derived by us. In Chart 4.6 later in this chapter, we set out the relative rankings on 2013 local bases and the SAB standard basis for each fund. Publication of results on SAB's standardised basis will improve the ability of a reader to be able to make comparisons, but does not in itself address the inconsistencies on which section 13 requires us to comment.
- 4.10 We can only conclude under section 13(4)(b) of the PSPS Act 2013 Act that 'the valuation has been carried out in a way which is not inconsistent with other valuations', if the valuations are carried out in consistent manner. Currently, in our opinion, the valuations are not carried out consistently.
- 4.11 We acknowledge that there are significant challenges to achieving consistency, particularly in the short term under existing regulations. In the longer term, we would expect a narrowing of the range of assumptions used, where local experience cannot be used to justify differences.
- 4.12 As an initial step towards achieving consistency, we recommend that the valuation results on the SAB standard basis and associated "dashboard" metrics are published in valuation reports to allow readers to make like for like comparisons.

Differences in interpretation of 'common contribution rate'

- 4.13 Regulation 36 of the LGPS (Administration) Regulations 2008⁷ states that:
- > An actuarial valuation must contain a rates and adjustments certificate;
 - > The rates and adjustments certificate must specify:
 - The common rate of employers' contributions; and
 - Any individual adjustments

Where the common rate of employers' contribution is defined as:

"the amount which, in the actuary's opinion, should be paid to the fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members."

- 4.14 The funds advised by Aon Hewitt and Mercer have interpreted this to mean that the CCR should be set as a fund's standard contribution rate ("SCR") in respect of future accrual. Under this approach any contributions required in respect of existing deficits are recorded as individual adjustments for each employer.

⁷ Regulation 36 is reproduced in Appendix B.



- 4.15 Funds advised by Barnett Waddingham and Hymans Robertson have interpreted the legislation to mean that a fund's CCR should be equal to its SCR plus any contributions required in respect of deficit. Any individual adjustments therefore reflect only the differences between employers contributing to a given fund.
- 4.16 It is not possible to compare the CCR for all funds. There is a clear inconsistency in how the CCR is interpreted.
- 4.17 We recommend that the four actuarial firms seek to agree a standard way of presenting contribution rates and other relevant disclosures to permit comparison. We acknowledge that new regulations specify the terms primary and secondary contributions rates and that CCR will no longer be relevant. However, the general principle that the four actuarial firms should interpret these terms consistently, and by reference to contributions actually received, remains valid.

Average actual contributions vs common contribution rate

- 4.18 Regulation 36(6)(b) of the Local Government Pension Scheme (Administration) Regulations 2008⁸ states that when calculating a fund's CCR the actuary must have regard to the desirability of maintaining as nearly constant a common rate as possible. We expected to see a relationship between the actual contributions paid over a given period and the CCR, but found we were not able to reconcile the two for most funds.
- 4.19 This "stability clause" is one of a number of reasons why employers are not necessarily required to pay the CCR derived in the fund's local valuation report. Other reasons include varying historical liabilities by employer and different contribution rates for scheduled bodies (due to variation in covenant quality). In some cases, if required contribution rates increase, actual contributions can taper towards the required contribution rate over a number of years.
- 4.20 Employers may also pay additional lump sum contributions as set out in the rates and adjustments certificate of their local valuation report. This is a common practice amongst many employers, reflecting their specific cash flow situation at a given point in time. These lump sums could, in addition to the employer's regular contributions, lead to total contributions exceeding the fund's CCR.
- 4.21 In practice, the approach to setting contributions varies according to actuarial firm.
- 4.22 In particular, Hymans Robertson state in their reports that:

The CCR "does not represent the rate which any one employer is actually required to pay, nor is it the average of the actual employer rates". Hymans Robertson "undertake an asset-liability modelling exercise that investigates the effect on the Fund of possible investment scenarios that may arise in the future. An assessment can then be made as to whether long term, secure employers in the Fund can stabilise their future contribution rates (thus introducing more certainty into their future budgets) without jeopardising the long-term health of the Fund."

⁸ See Appendix B

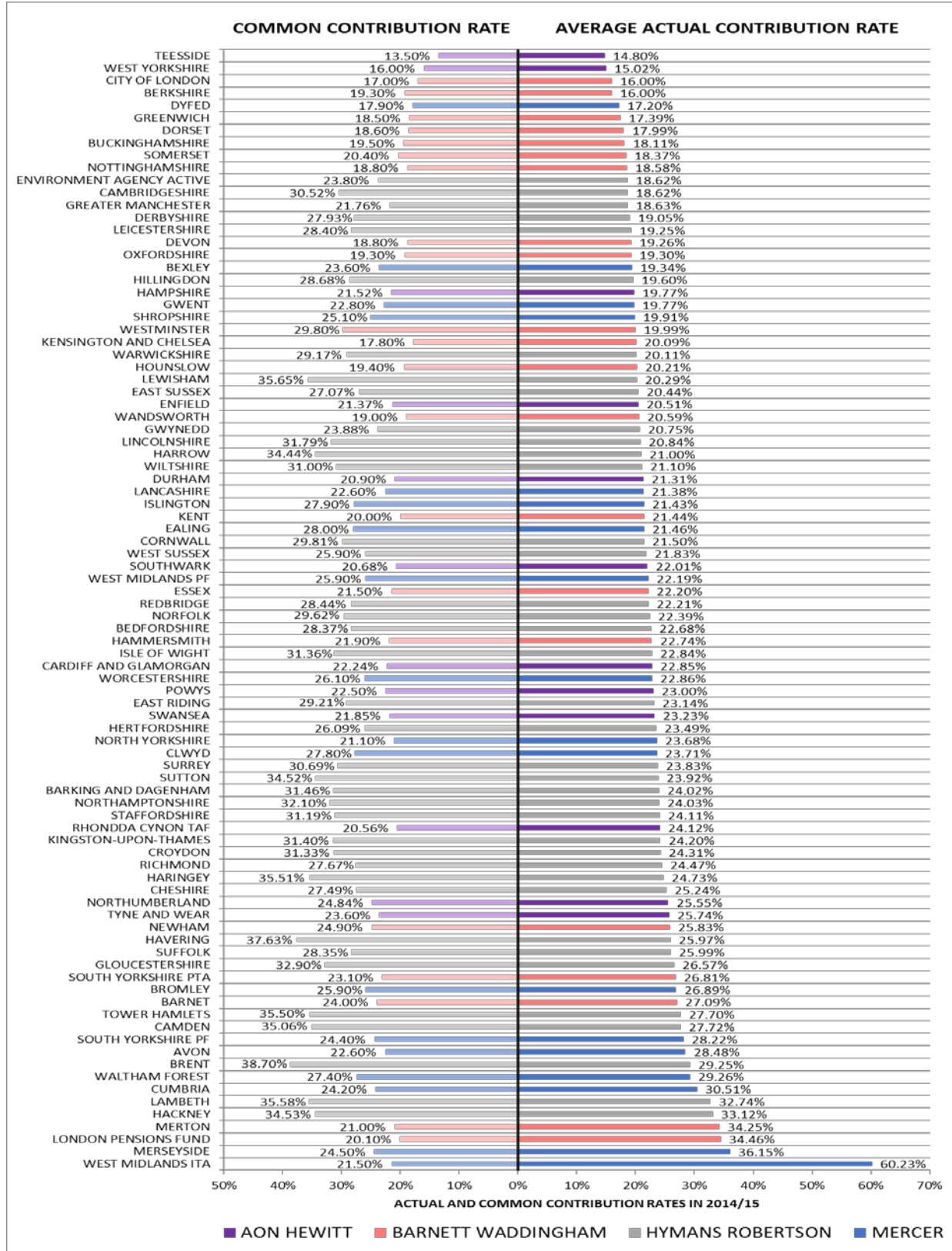


- 4.23 Funds advised by Mercer adopt a different discount rate assumption for future service, as set out in paragraph 4.50. This implies a different methodology for recommending rates, but the actual rates recommended to Mercer-advised funds are typically the same as the recommended rates.
- 4.24 Funds advised by Aon Hewitt and Barnett Waddingham generally use a single discount rate for both past and future service liabilities.
- 4.25 The following chart shows the difference between actual 2014/15 employer contributions, derived from SF3 statistics⁹, and the common contribution rate specified in the fund's local valuation report. For the purposes of the following chart, the CCR is taken to be the sum of the standard contribution rate and any additional contribution rate in respect of deficit. Whilst we understand that there is a stepping process through which contributions move towards the recommended rates, we found that the relationship between the CCR and contributions actually paid by employers was difficult to interpret, regardless of which firm the fund in question is advised by.
- 4.26 This inconsistency makes it unnecessarily difficult for a reader to be able to understand the results of the valuation and to be able to interpret and compare those results with other funds. We understand that the CCR will no longer be required as a disclosure under revised regulations from 2016. However, we believe it is imperative that the primary and secondary rates that are required under new regulations should relate directly to the contributions recommended to be paid by the actuary (over a suitable period), and consistently reported, to enable comparisons to be made.

⁹ Actual contributions include lump sum contributions referred to in paragraph 4.19.



Chart 4.1: Average actual contributions vs. common contribution rates





Use of smoothed asset values

- 4.27 20 of the 21 funds advised by Barnett Waddingham used smoothed asset values to calculate funding ratios in their 2013 actuarial valuations, where the smoothing period was the six month period from 1 January 2013 to 30 June 2013. This is not consistent with other funds who have used the actual market value of assets as at the valuation date of 31 March 2013.
- 4.28 In all cases the smoothed asset value was lower than the market value of assets at 31 March 2013. However we do not consider this to introduce bias because in other circumstances the opposite could be true and as mentioned in paragraph 4.44, Barnett Waddingham also set their discount rate according to prevailing market conditions over the six months straddling the valuation date.

Use of post valuation asset returns to calculate future contribution rates

- 4.29 The 18 funds advised by Mercer took account of market conditions after the valuation date when calculating future contribution rates. All other funds used market conditions as at 31 March 2013. The reasoning for this approach given by Mercer is:

“Since 31 March 2013 there have been significant changes in the financial market position. In particular there has been an increase in gilt yields, which underpin the assessment of the past service liability values and therefore the long term funding target. As the new contribution rates are effective from 1 April 2014, if required, it is appropriate to allow for this improvement as part of the stabilisation of contribution requirements for individual employers.”

- 4.30 This tends to lead to lower contribution rates than they would have otherwise been.

Pension commutation assumptions

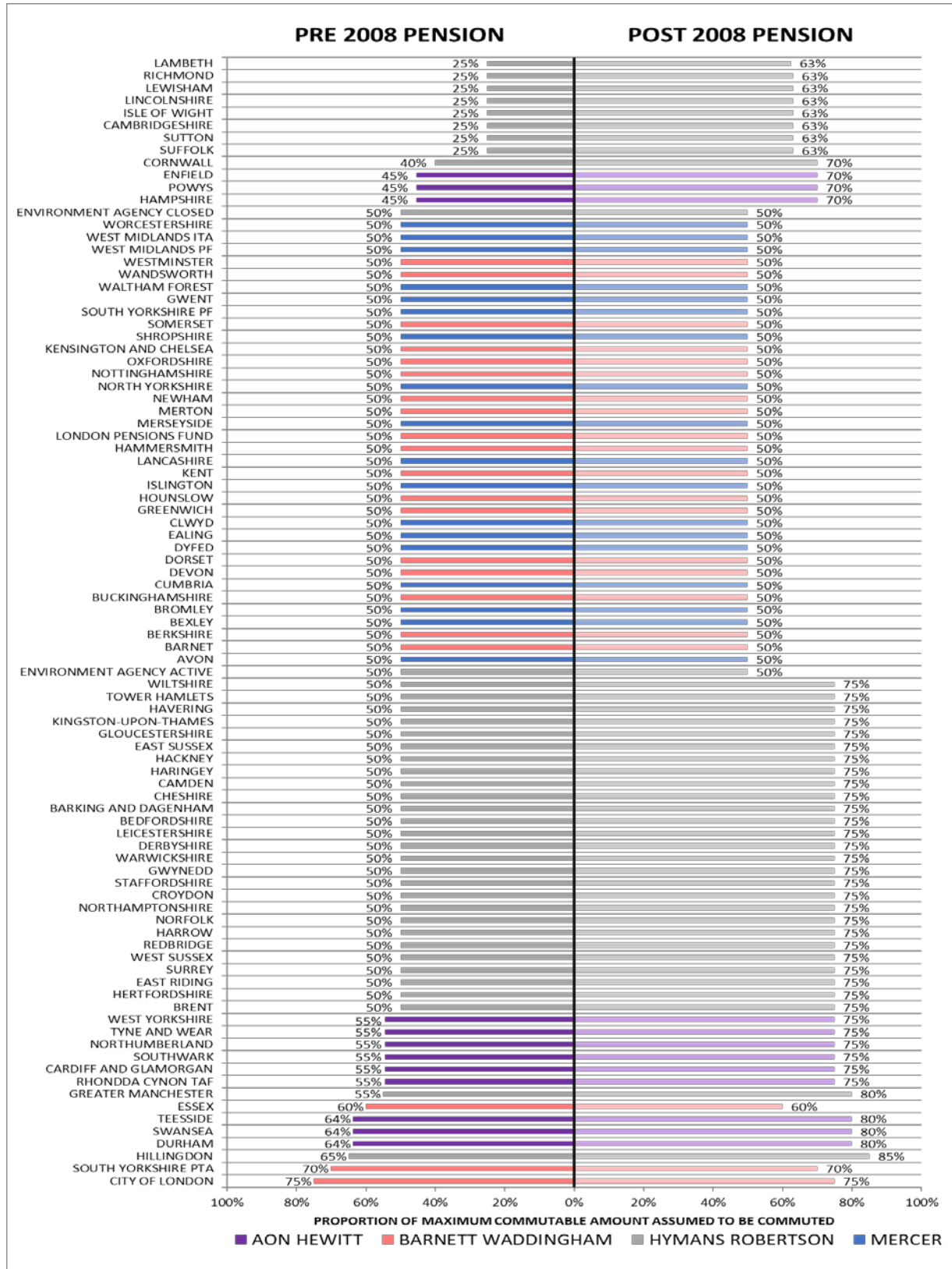
- 4.31 Scheme regulations and HM Revenue and Customs (HMRC) rules allow members to commute a percentage of their pension, reducing the annual amount of pension they receive for a lump sum on retirement.
- 4.32 Regulations currently permit members to commute at a rate of £12 lump sum for each £1 reduction in pension, subject to HMRC limits on the maximum proportion of benefits that can be taken as a lump sum. As the discounted future life expectancy of a member is usually more than 12 years at retirement, commutation tends to be cheaper for the pension scheme. High assumed levels of commutation will therefore tend to reduce the assessed cost of liabilities already accrued and the assessed cost of future accrual.
- 4.33 LGPS benefits were restructured in 2008, with one of the changes being the removal of an automatic lump sum for any pension accrued post 2008. Many funds therefore have different assumptions for commutation of pre 2008 and post 2008 pensions and the assumptions are uniformly expressed as a proportion of the maximum allowable.



- 4.34 The following chart shows the differing assumptions between funds for the assumed proportion of maximum allowable pension commuted for both pre and post 2008 pension. For pre-2008 pension, the assumed proportion applies to the remaining maximum amount after the automatic lump sum has been taken.
- 4.35 Our interpretation of the chart is that there appears to be a common view amongst funds with the same actuarial advisor, but some inconsistency between actuarial advisors. Where this assumption is set based on local experience, this should be explained in the valuation report



Chart 4.2: Commutation assumptions for pre and post 2008 pension





Long term mortality improvements

- 4.36 Mortality rates are expected to improve in the future, resulting in longer life expectancies. As benefits are expected to be paid for longer, improving life expectancy results in higher liabilities in respect of existing accrued benefits and higher contributions to cover the cost of future accrual.
- 4.37 There may be evidence of regional variation in mortality rates that justify funds having different assumptions, but it is perhaps more difficult to justify different assumptions for the future improvements in those mortality rates.
- 4.38 GAD's analysis shows that each actuarial advisor appears to have a common 'house' view on the extent of future mortality improvements. The table below shows the assumed rates of annual improvement in male mortality rates by advisor. In all cases the assumed improvement for female mortality rates is the same as those shown below.

Table 4.1: Annual assumed rate of future mortality improvements

ACTUARIAL ADVISOR	LONG TERM RATE OF MORTALITY IMPROVEMENTS (MALE)				TOTAL
	0.50%	1.00%	1.25%	1.50%	
AON HEWITT	0	0	0	12	12
BARNETT WADDINGHAM	0	1	1	19	21
HYMANS ROBERTSON	1	0	39	0	40
MERCER	0	0	1	17	18

- 4.39 Hymans Robertson appears to differ from the other advisors with an assumed rate of mortality improvement of 1.25% for the majority of the funds they advise.
- 4.40 The "outliers" in the table above are mature/closed funds:
- > South Yorkshire Passenger Transport Authority Pension Fund (*Barnett Waddingham, 1.00%*);
 - > City of London Corporation Pension Fund (*Barnett Waddingham, 1.25%*);
 - > Environment Agency Closed Fund (*Hymans Robertson, 0.50%*); and
 - > West Midlands Integrated Transport Authority Pension Fund (*Mercer, 1.25%*).

Derivation of discount rates

- 4.41 At each actuarial valuation a fund, on the advice of its actuary, sets the discount rate or rates that will be used to value its existing liabilities and calculate the contributions that should be paid in order for the fund to meet the cost of future accrual of benefits, and to remove any existing deficit from the scheme.
- 4.42 The four actuarial advisors approach the derivation of these discount rates differently. The table below summarises the approach taken by one "typical" fund advised by each firm, and is taken from that fund's valuation report and FSS.



Table 4.2 Discount rate methodology

ACTUARIAL ADVISOR	DISCOUNT RATE	METHODOLOGY	2013 VALUATION ASSUMPTION
CARDIFF AND VALE OF GLAMORGAN PENSION FUND (AON HEWITT)	PAST SERVICE LIABILITIES AND FUTURE CONTRIBUTIONS	ASSET BASED RATE	5.6%
ROYAL BOROUGH OF KENSINGTON AND CHELSEA PENSION FUND (BARNETT WADDINGHAM)	PAST SERVICE LIABILITIES AND FUTURE CONTRIBUTIONS	ASSET BASED RATE	5.9%
NORTHAMPTONSHIRE PENSION FUND (HYMANS ROBERTSON)	PAST SERVICE LIABILITIES AND FUTURE CONTRIBUTIONS	GILT YIELDS + 1.6%	4.6%
SOUTH YORKSHIRE PENSION FUND (MERCER)	PAST SERVICE LIABILITIES	GILT YIELDS + 1.4%	4.6%
	FUTURE CONTRIBUTIONS	CPI + 3%	5.6%

- 4.43 Further details on the approach used are set out below, taken from the fund's valuation report and funding strategy statement

Cardiff and Vale of Glamorgan Pension Fund

- 4.44 The fund's valuation report says:

"The funding strategy statement describes the risk based approach used to set the funding strategy and hence the discount rate. Under this risk based approach:

- > The discount rate for long term scheduled bodies assumes indefinite future investment in assets similar to the Fund's holdings at the valuation date (allowing for any known planned changes to the long term investment strategy).*
- > The Fund assets are considered to have a better than evens chance of delivering investment returns in excess of the scheduled body discount rate."*

Royal Borough of Kensington and Chelsea Pension Fund

- 4.45 The fund's funding strategy statement says:

"The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date."

- 4.46 The fund's valuation report says:

"The discount rate – this is based on the expected investment return from the Fund's assets."

Northamptonshire Pension Fund



4.47 The fund's funding strategy statement says:

"This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts").....Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more. For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation)."

4.48 The fund's valuation report says:

"Although there has been a downward shift in the expected returns on risky assets since the 2010 valuation, we believe the expected returns in excess of the returns on government bonds to be broadly unchanged since 2010. Therefore, we are satisfied that an AOA¹⁰ of 1.6% p.a. is a prudent assumption for the purposes of this valuation. This results in a discount rate of 4.6% p.a."

South Yorkshire Pension Fund

4.49 The fund's funding strategy statement says:

"The funding strategy adopted for the 2010 valuation is based on an assumed asset out-performance of 2% in respect of liabilities pre-retirement, and 1% in respect of post-retirement liabilities. Based on the liability profile of the Fund at the valuation, this equates to an overall asset out-performance allowance of 1.4% ahead of the LRP¹¹ p.a."

4.50 The fund's valuation report says:

"The discount rate adopted to set the Funding Target is derived by mapping projected cashflows arising from accrued benefits to a yield curve (which is based on market returns on UK Government gilt stocks and other instruments of varying durations), in order to derive a market consistent gilt yield for the profile and duration of the Scheme's accrued liabilities. To this an Asset Out-performance Assumption ("AOA") of 1.4% per annum is added to reflect the Fund's actual investment strategy.

"The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3% per annum."

¹⁰ AOA = Asset Outperformance Assumption

¹¹ LRP = Least Risk Portfolio. "a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts"



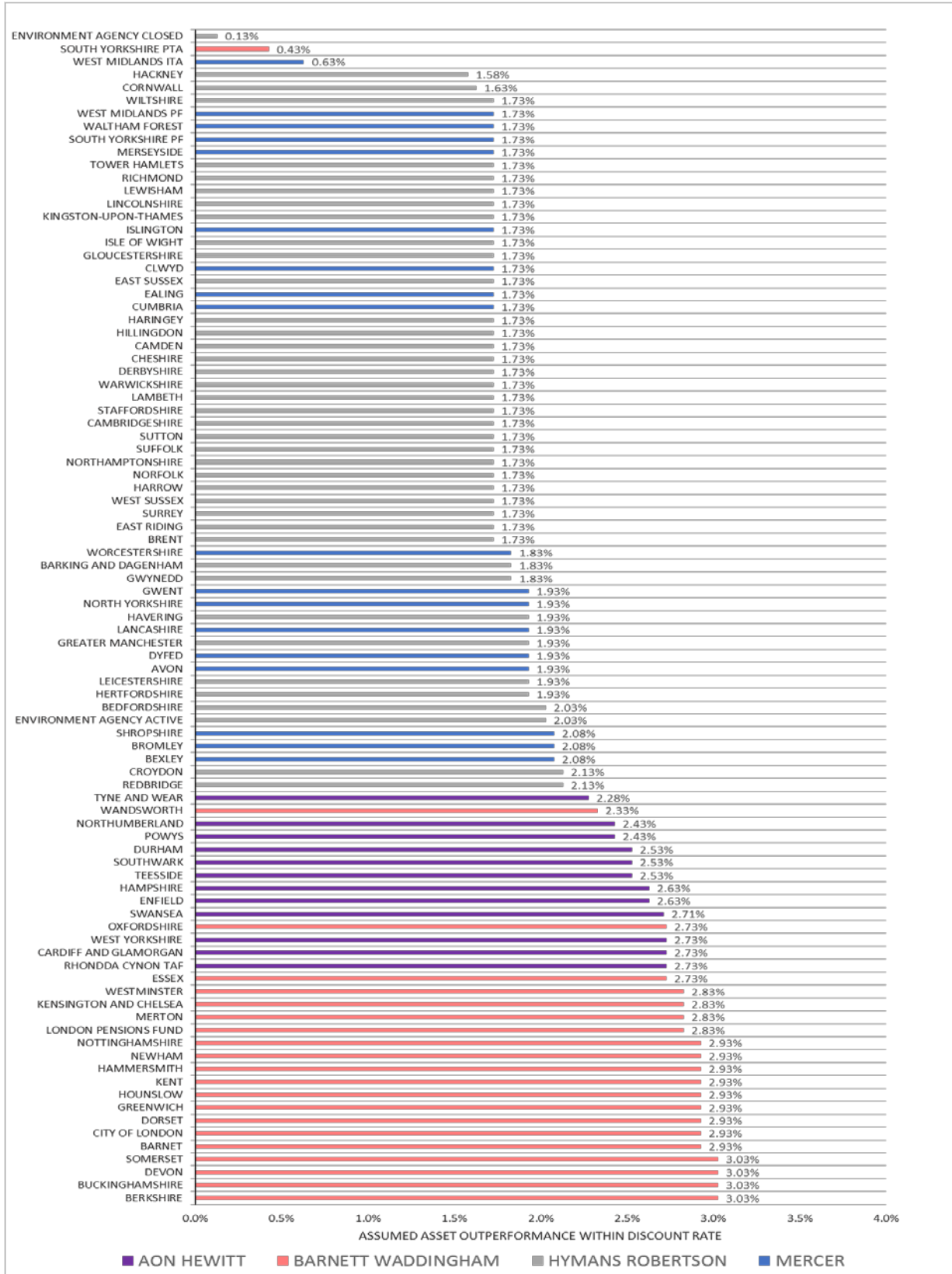
- 4.51 This review does not seek to comment on the methodologies the four firms use to derive their discount rates. Further we accept that the discount rate is the main vehicle for adding prudence, as required by regulations. We are pointing out that the methods are different, resulting in different levels of prudence being incorporated into the valuation results, and that this in itself is not explicit, which makes the results of the 2013 valuations unnecessarily difficult to compare for the reader. We also note that the production of standardised results for the 2016 valuations will help in this regard.

Assumed asset out performance within discount rate

- 4.52 In practice, each actuarial firm has its own method of assessing the appropriate discount rate. However, based on information provided, we considered it appropriate to break this down into the following four components (although we acknowledge this construct does not reflect the way some firms assess their discount rate assumption).
- > A risk free real rate of return ("RFR")
 - > Assumed Consumer Price Index ("CPI") inflation
 - > The excess of assumed Retail Price Index ("RPI") inflation over assumed Consumer Price Index inflation
 - > The assumed asset performance over and above the risk free rate (which is a balancing item to get to the discount rate used, and therefore the main determinant of the variation in discount rates, and ultimately the level of prudence adopted)
- 4.53 Chart 4.3 shows the assumed asset out performance over and above the risk free rate, where the asset outperformance assumption ("AOA") is calculated as the fund's nominal discount rate ("DR") net of:
- > The RFR – the real 20 year Bank of England spot rate as at 31 March 2013
 - > Assumed CPI – as assumed by the fund in their 2013 actuarial valuation
 - > The excess of assumed RPI inflation over assumed CPI inflation ("RPI-CPI") – as assumed by the fund in their 2013 actuarial valuation
- i.e. $AOA = DR - RFR - CPI - (RPI - CPI)$.
- 4.54 The chart is ordered by maximum assumed AOA within the advisory firm, as represented by the colour scheme. It indicates that the different rates are more likely to be the result of differing future expectations between the four actuarial advisors than, for example, different investment strategies. A higher AOA tends to lead to a higher discount rate and a lower value placed on the liabilities, other things being equal.
- 4.55 As we have noted, Mercer use a different discount rate to assess future contribution rates.



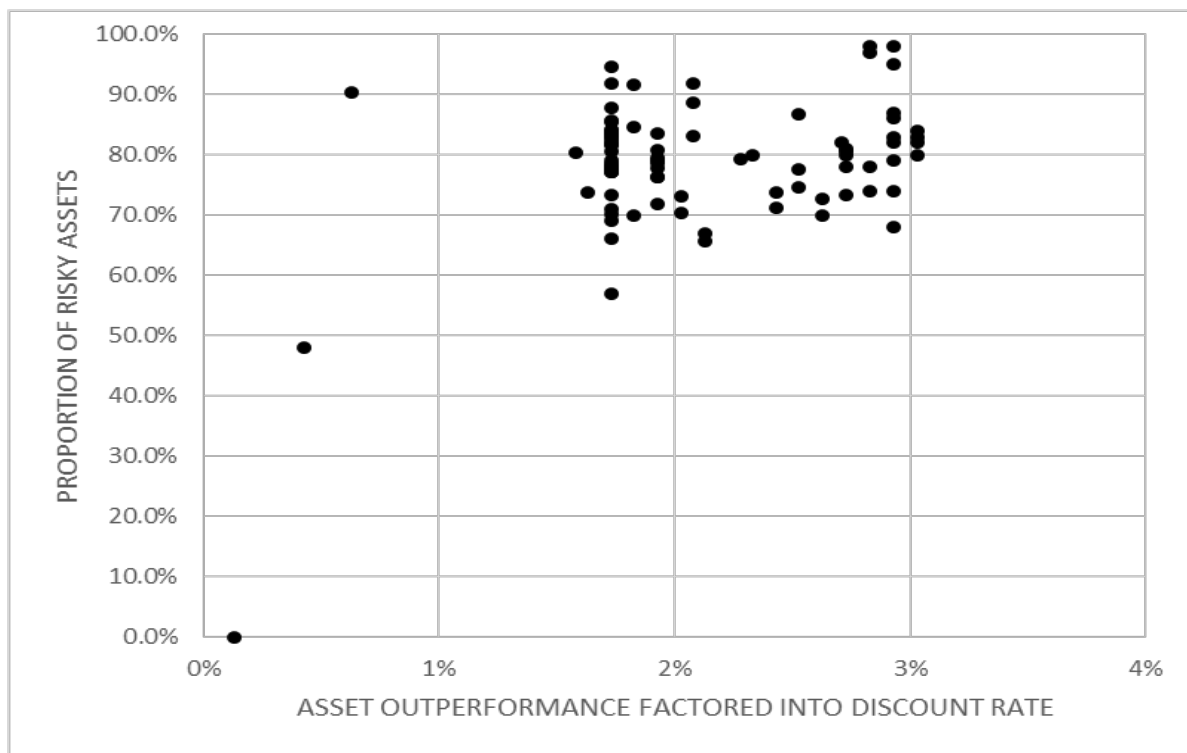
Chart 4.3: Assumed asset outperformance within discount rate





- 4.56 The large variation between funds in the implied level of asset outperformance over and above the risk free rate of return could be due to differing investment strategies between funds. For example, a fund invested solely in defensive assets, such as Government bonds, would expect a lower rate of return than a fund invested solely in return-seeking assets, such as equities. They would typically use a lower discount rate in their actuarial valuation to allow for this low-risk, low-return investment strategy.
- 4.57 The variation in asset outperformance could also be considered as a measure of the risk appetite adopted by the funds. We would encourage the actuarial firms to provide additional explicit discussion of this aspect in the 2016 and subsequent valuation reports to assist the reader in interpreting the fund's risk appetite.
- 4.58 The following chart shows that there is not a definite link between asset outperformance assumption and proportion of return seeking assets.

Chart 4.4: Asset Outperformance by proportion of return seeking assets





Real earnings growth

- 4.59 There is considerable inconsistency in the assumptions of future real earnings growth, where real earnings growth consists of:
- > The excess of the assumed rate of earnings inflation over the assumed rate of CPI inflation
 - > Assumed promotional salary growth
- 4.60 A higher rate of real earnings growth (all other assumptions remaining constant) will lead to higher liabilities in an actuarial valuation as the majority of existing liabilities are linked to a member's final salary.
- 4.61 However, where contribution rates are quoted as a percentage of payroll (although this appears to be relatively rare) a higher rate of real earnings growth also means that future contributions, in money terms, will increase. A higher real earnings assumption may therefore have the effect of weighting contributions in respect of deficit further towards the future, when a fund's payroll is expected to be larger, rather than the present day.
- 4.62 The following chart shows the assumed salary at age 65, in 2013 prices terms, for a member who joined the fund aged 45 on 31 March 2013 with a salary of £20,000 per annum. Mercer combine their general salary increase and promotion salary increase assumptions into a single figure. The funds they advise have been included in the analysis on that basis. The Environment Agency Closed Fund is excluded as it has few or no active members.
- 4.63 The majority of funds have assumed different levels of promotional salary growth for male and female members, except 9 of the 12 funds advised by Aon Hewitt for whom a unisex promotional salary growth assumption is used.
- 4.64 Funds advised by Hymans Robertson also generally have a separate promotional salary growth assumption for full-time and part-time members whereas funds advised by other firms have a single assumption for all active members.
- 4.65 We would expect some regional variation in this assumption. We also understand that it is an area in which the local authorities may have some input, particularly in short term variations. We would encourage the actuarial firms to add explicit commentary about both short term and long term impacts of these factors on the assumptions adopted.



Chart 4.5: Projected real salary at age 65 for a member aged 45 on £20,000 pa 2013 prices



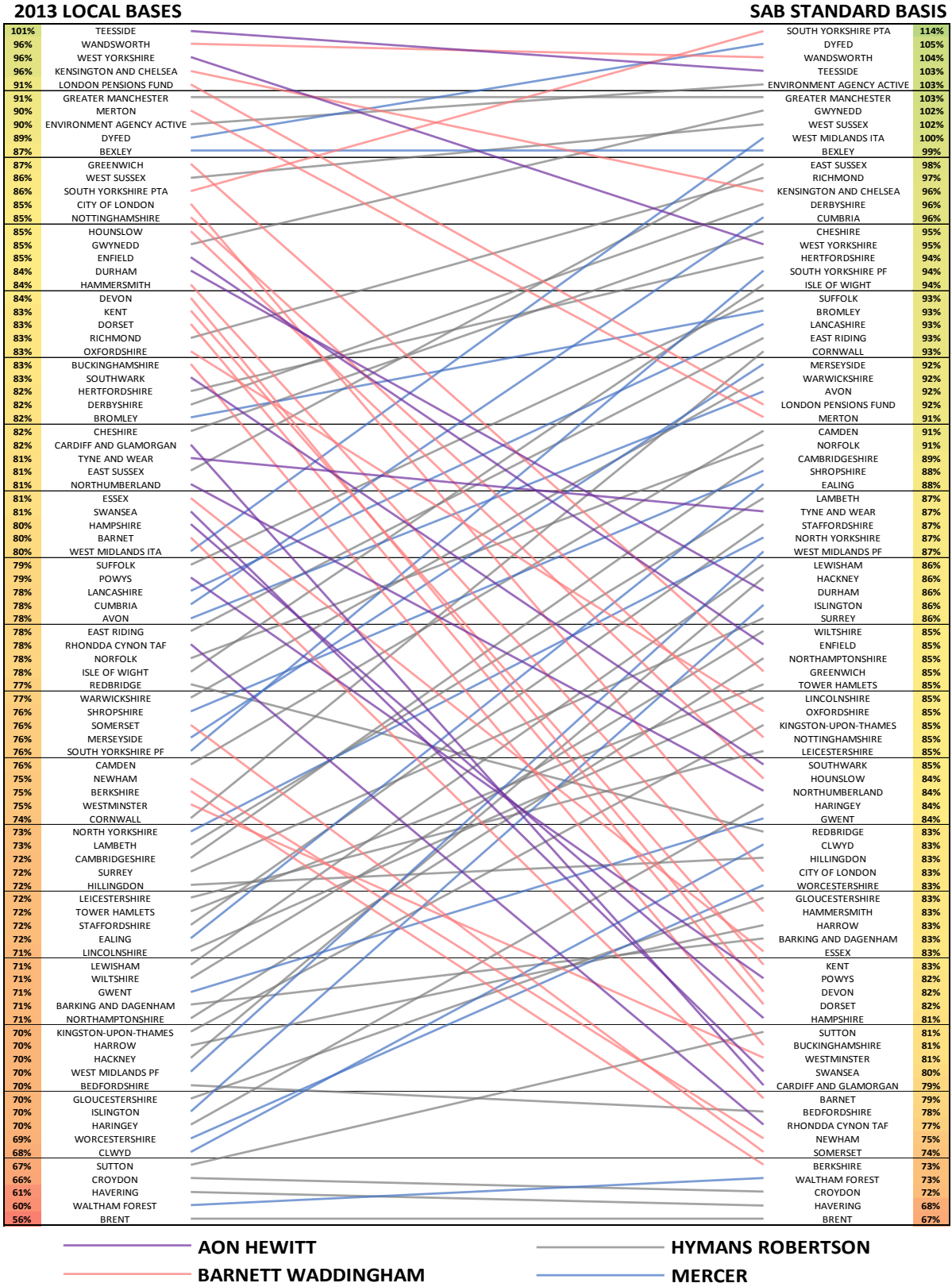


Standardising the valuation results

- 4.66 Whilst we acknowledge that no presentation of results on a standardised basis was required as at 2013, the inconsistencies between funds identified above prevent meaningful comparison of local valuation results. As part of the next valuation cycle, as at 31 March 2016, it is expected that funds will produce results on a standardised set of assumptions as well as on their local assumptions, which is a positive step towards allowing the reader to be able to compare the results of valuations for different funds.
- 4.67 As this information is not available for the actuarial valuations as at 31 March 2013 GAD have adjusted the existing valuation results in order to approximately standardise them using a set of assumptions published by the SAB. This paper refers to this set of assumptions as the "SAB standard basis".
- 4.68 The SAB standard basis is reproduced in Appendix D.
- 4.69 Although the basis proposed by SAB for comparisons is not market consistent, it does allow a meaningful comparison to be made, as this is purely a relative ranking chart. Note that the SAB standard basis is not designed to be market consistent. The funding levels are therefore not intended to represent our opinion of how well funded a particular fund is, but rather to assist in identifying approximate ranking relativities.
- 4.70 The following chart shows how the relative ranking of funds by funding ratio (assets/liabilities) has changed as a result of the standardisation process. Funds at the top of the list are those that have the highest funding levels and those at the bottom of the list have the lowest funding levels.
- 4.71 The chart shows a clear pattern, with funds advised by Aon Hewitt and Barnett Waddingham tending to be lower ranked following the standardisation process, and funds advised by Hymans Robertson and Mercer tending to be higher ranked. This may be interpreted as an indication of differing levels of prudence adopted.
- 4.72 The extent of the changes in ranking between the two bases indicate that any comparisons based on the local fund valuation results, which are inherently inconsistent, could lead to incorrect conclusions.
- 4.73 The Environment Agency Closed Pension Fund has been excluded from the table as explained in paragraph 4.62.



Chart 4.6: Standardising local valuation results





5 Solvency

The conclusions of this chapter are that:

- > For the two closed Passenger Transport funds, we are not aware of any plan in place to ensure solvency. We would have engaged with the administering authorities to discuss the need for plans to be put in place had section 13 applied as at 31 March 2013.
- > We have also highlighted the ten funds with the lowest funding level on the Scheme Advisory Board (SAB) standardised basis. Whilst being poorly funded is not necessarily sufficient, by itself, to warrant a recommendation for remedial action had section 13 been in force, we may nevertheless have engaged with a number of these funds to better understand how they intend to improve their funding position.
- > We believe it is important that administering authorities and other employers understand the potential variability of contributions, so that they can understand the affordability of providing LGPS benefits to their employees.

5.1 Under section 13(4)(c) of the Act the Government Actuary (as the person appointed by the responsible authority) must, following an actuarial valuation, report on whether the rate of employer contributions to the pension fund (in this case an LGPS pension fund) is set at an appropriate level to ensure the solvency of the pension fund.

5.2 The explanatory notes to the Act state that solvency means that the rate of employer contributions should be set at "*such a level as to ensure that the scheme's liabilities can be met as they arise*". We do not regard that this means that a pension fund should be 100% funded at all times. Rather, and for the purposes of section 13, we consider that the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency of the pension fund if:

- > the rate of employer contributions is set to target a funding level for the whole fund (assets divided by liabilities) of 100% over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds)

and either:

- > employers collectively have the financial capacity to increase employer contributions, should future circumstances require, in order to continue to target a funding level of 100%

or

- > there is an appropriate plan in place should there be, or if there is expected in future to be, no or a limited number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed



5.3 In the context of the LGPS:

- > Our understanding based on confirmation from DCLG is that, in contrast to employers in the private sector, there is no insolvency regime for local authorities
- > Therefore, for the purposes of our analysis we will assume that local authority sponsors cannot default on their pension liabilities through failure
- > For funds with local authority employers, members' benefits are therefore dependent on the assets of the scheme and future contributions from employers including local authorities

It is therefore important that administering authorities and other employers understand the potential cost, so that they can understand the affordability of potential future contribution requirements.

Volatility of contributions

5.4 The future rate of employer contributions to ensure the solvency of the fund can be highly volatile, and dependent on economic conditions at the time of valuation and asset returns over the periods between valuations.

5.5 In a financial crisis scenario, similar to the 2008 financial crisis, we estimate that aggregate contributions would have to increase by around £1.7 billion per year assuming that some of the existing prudence in assumptions is relaxed. If the same level of prudence was maintained we estimate that contributions would increase by £4.9 billion per year (compared with the actual outturn from the 2013 valuations of £6.6 billion). Over the three years from 1 April 2016 to 31 March 2019 we estimate additional contributions of approximately £13.5bn would be required.

Solvency considerations

5.6 In assessing whether the conditions in paragraph 5.2 are met, we will have regard to:

Risks already present:

- > funding level on the SAB standard basis
- > the extent to which the fund continues to be open to new members. If the fund is closed to new members or is highly mature, we will focus on the ability to meet additional cash contributions
- > the ability of the fund to meet benefits due (without constraining investment policy)
- > the ability of tax raising authorities to meet employer contributions

Emerging risks:

- > the cost risks posed by changes in the value of the scheme liabilities (to the extent that these are not matched by changes to the scheme assets)



- > the cost risks posed by changes to the value of scheme assets (to the extent that these are not matched by changes to the scheme liabilities)
- > the proportion of scheme employers without tax raising powers or without statutory backing
- > how the risks above compare with the pensionable payroll of scheme employers, and the wider income of sponsoring employers as a whole

5.7 If the conditions in paragraph 5.2, taking into account the considerations above, are met then it is expected that the fund will be able to pay scheme benefits as they fall due.

Solvency measures

5.8 In the 2016 section 13 report GAD is likely to use ten¹² measures across the two categories to assess whether the above conditions are met. In this 2013 dry run report GAD has only used six of these ten measures as the data required for the other four measures were not available within the necessary time frame. However, we have included all ten measures in the descriptions that follow for information purposes.

5.9 In the following table we set out the considerations with regards to risks already present and emerging risks, and map these to the likely measures:

Table 5.1: Solvency measures

Consideration	Measure Used
Risks already present:	
The relative ability of the fund to meet its accrued liabilities	SAB funding level: A fund's funding level using the SAB standard basis, as set out in Appendix D
The extent to which the fund continues to be open to new members. If a fund is closed to new members or is highly mature, we will focus on the ability to meet additional cash contributions	Open fund: Whether the fund is open to new members
The proportion of scheme employers without tax raising powers or without statutory-backing	Non-statutory members: The proportion of members within the fund who are/were employed by an employer without tax raising powers or statutory backing

¹² Data were not available to populate all measures. We expect these data to be available for the section 13 work following the 2016 valuations.



Consideration	Measure Used
The ability of tax raising authorities to meet employer contributions	Contribution cover¹⁰: Actual contributions paid to the fund as a proportion of local authority income
Emerging risks:	
The cost risks posed by changes in the value of the scheme liabilities (to the extent that these are not matched by changes to the scheme assets) compared with the pensionable payroll of scheme employer	Liability shock: The change in average employer contribution rates as a percentage of payroll after a 10% increase in liabilities
How the risk above compares with the pensionable payroll of scheme employers, and the wider income of sponsoring employers as a whole	Liability shock cover¹³: The change in average employer contribution rates as a percentage of local authority income after a 10% increase in liabilities
The cost risks posed by changes to the value of scheme assets (to the extent that these are not matched by changes to the scheme liabilities)	Asset shock: The change in average employer contribution rates as a percentage of payroll after a 15% fall in value of return-seeking assets
How the risk above compares with the pensionable payroll of scheme employers, and the wider income of sponsoring employers as a whole	Asset shock cover¹¹: The change in average employer contribution rates as a percentage of local authority income after a 15% fall in value of return-seeking assets
The impact of non statutory employers defaulting on contributions	Employer default: The change in average employer contribution rates as a percentage of payroll if all employers without tax raising powers or statutory backing default on their existing deficits
How the risk above compares with the pensionable payroll of scheme employers, and the wider income of sponsoring employers as a whole	Employer default cover¹¹: The change in average employer contribution rates as a percentage of local authority income if all employers without tax raising powers or statutory backing default on their existing deficits

¹³ Data were not available for these measures. We expect information to be available following the 2016 valuations.



- 5.10 We have included reference to tax payer-backed employers being of stronger covenant value than other employers. Data for this purpose are captured from SF3 statistics which labels employers with one of four categories. For this purpose we have taken categories 1 and 2 to be tax payer-backed, while categories 3 and 4 are not tax payer-backed. It is likely that some category 3 employers have council guarantees, bonds or other external security. However, we consider that this does not alter the general principle that the residual liability falls back to the tax payer-backed employers.
- 5.11 Each fund's score under each measure is colour coded, where:
- > **RED** indicates a potentially material issue that may contribute to a recommendation for remedial action in order to ensure solvency;
 - > **AMBER** is used to highlight a possible risk to sponsoring employers; and
 - > **GREEN** indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure solvency.
- 5.12 It should be noted that these flags are intended to highlight areas for further investigation, but green does not indicate a clean bill of health and also that the fact we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions.
- 5.13 Emerging risk measures require assumptions. We used market consistent assumptions for this purpose, details of which can be found in Appendix D. Details of the methods used to calculate scores under each measure and the criteria used to assign a colour code can be found in Appendix E.
- 5.14 In tables 5.2 (open funds) and 5.3 (closed funds) below we illustrate the results of the six solvency measures we have used for each of the individual funds in the LGPS where at least one measure of insolvency was amber or red. A fund with a large number of amber or red measures is one where the solvency of the fund may be at risk. Table F.1 in Appendix F sets out the results of each solvency measure for each fund in LGPS.
- 5.15 The rates shown in tables 5.2, 5.3 and F.1 are approximate, and are based on the information provided to GAD and/or publicly available. Although the calculations are approximate, we consider they are sufficient for the purposes of identifying which funds are a cause for concern. While they should not represent targets, these measures help us determine whether a more detailed review is required; for example, we would have concern where multiple measures are triggered amber for a given fund.



Table 5.2: Open funds with amber or red solvency measures

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
BEDFORDSHIRE	5.9 (76)	78%	YES	4%	+3%	+3%	+0%
BERKSHIRE	5.9 (78)	73%	YES	6%	+3%	+3%	+1%
BEXLEY	7.4 (14)	99%	YES	7%	+4%	+6%	-0%
BRENT	6.9 (28)	67%	YES	0%	+4%	+3%	+0%
BROMLEY	6.8 (33)	93%	YES	2%	+4%	+5%	+0%
CAMDEN	8.6 (7)	91%	YES	9%	+5%	+6%	+0%
CROYDON	6.7 (37)	72%	YES	5%	+4%	+3%	+1%
EAST SUSSEX	6.3 (52)	98%	YES	2%	+4%	+5%	-0%
GREATER MANCHESTER	7.2 (22)	103%	YES	22%	+4%	+5%	-1%
GREENWICH	7.2 (21)	85%	YES	6%	+4%	+5%	+0%
HACKNEY	7.4 (15)	86%	YES	0%	+4%	+5%	+0%
HAMMERSMITH	8.9 (6)	83%	YES	6%	+5%	+6%	+0%
HARINGEY ¹⁴	7.8 (11)	84%	YES	N/A	+4%	+5%	N/A
HAVERING	6.8 (34)	68%	YES	1%	+4%	+3%	+0%
ISLE OF WIGHT	7.4 (16)	94%	YES	3%	+4%	+5%	+0%
KENSINGTON AND CHELSEA	7.7 (13)	96%	YES	5%	+4%	+6%	-0%
LAMBETH	8.9 (5)	87%	YES	5%	+5%	+5%	+0%
LEWISHAM	7.8 (10)	86%	YES	16%	+4%	+5%	+1%
LONDON PENSIONS FUND	9.6 (4)	92%	YES	0%	+6%	+4%	+0%
MERSEYSIDE	7.3 (17)	92%	YES	13%	+4%	+5%	+0%
NEWHAM ¹²	7.3 (19)	75%	YES	N/A	+4%	+4%	N/A
NORTHUMBERLAND	8.2 (8)	84%	YES	6%	+5%	+5%	+0%
OXFORDSHIRE	5.9 (75)	85%	YES	36%	+3%	+4%	+2%
RHONDDA CYNON TAF	6.1 (68)	77%	YES	5%	+3%	+3%	+0%

¹⁴ The information required for the *Non-Statutory Employees* and *Employer Default* measures was not available in the SF3 statistics.



PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
RICHMOND	7.1 (24)	97%	YES	3%	+4%	+5%	-0%
SOMERSET	5.9 (80)	74%	YES	13%	+3%	+3%	+1%
TEESSIDE	6.8 (29)	103%	YES	13%	+4%	+5%	-0%
TOWER HAMLETS	8.1 (9)	85%	YES	0%	+5%	+5%	+0%
WALTHAM FOREST	7 (26)	73%	YES	5%	+4%	+4%	+1%
WANDSWORTH	7.7 (12)	104%	YES	1%	+4%	+6%	-0%
WEST SUSSEX	6 (72)	102%	YES	6%	+3%	+5%	-0%
WESTMINSTER	10.1 (3)	81%	YES	11%	+6%	+6%	+1%

Table 5.3: Closed funds with amber or red solvency measures

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
SOUTH YORKSHIRE PTA ¹⁵	25.2 (1)	114%	NO	100%	+5%	+3%	N/A
WEST MIDLANDS ITA ¹³	25.1 (2)	100%	NO	100%	+5%	+7%	N/A

Observations based on the solvency measures

Open Funds

- 5.16 All funds should be aware of their solvency position to ensure that the relevant plans are in place to be able to pay benefits when they fall due, and employers are able to accommodate potential future increases in contributions.
- 5.17 This is particularly important in the case of mature funds. They should ensure that sufficient plans are in place to be able to pay benefits when they fall due in the environment of no future employer contributions.

¹⁵ The **Employer Default** measure is shown as N/A because there are no statutory employers participating in these two closed funds.



- 5.18 We may also have engaged with a number of funds showing amber flags under the SAB funding level measure to better understand how they intend to improve their funding position had section 13 applied as at 31 March 2013.

Adjustment to results for City of Westminster Pension Fund and London Borough of Waltham Forest Pension Fund

- 5.19 As noted in paragraph 2.9, the purpose of the flags is to identify authorities with whom we might engage and potentially seek additional information from. The importance of clear disclosure in the valuation reports and accurate provision of data from the local authorities and the actuarial firms is highlighted by two examples from our analysis.
- 5.20 For the City of Westminster Pension Fund, we sought more information from the fund's actuary, clarifying the different actuarial basis that had been applied to some admission bodies, whereas our standard assessment methodology had relied on the same actuarial assumptions being applied for all participating employers in the fund except where this was clear from the valuation report. Based on this additional information, we recalculated our measures and have reported on this revised basis. The result was that Westminster raised only two amber flags.
- 5.21 For the Borough of Waltham Forest Pension Fund, following engagement with the fund's actuary, we were advised that a material proportion of members had seemingly been incorrectly classified in SF3 data returns. Upon receipt of data reflecting a revised classification of those members, we were able to conclude that Waltham Forest raised only one amber flag.
- 5.22 Following the 2016 valuation we will request more explicit information and our expectation is that this, together with having highlighted the need for clear and full disclosure and the production of liabilities on the SAB standard basis, will help to improve the overall quality of information provided.

Closed Funds

- 5.23 The Environment Agency Closed Pension Fund has not been shown in the table above and is excluded from the analyses that follow as the benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs as set out in the Compliance chapter.
- 5.24 Table 5.3 shows that both West Midlands Integrated Transport Authority Pension Fund and South Yorkshire Passenger Transport Authority Pension Fund raised a number of red/amber flags.
- 5.25 Our further investigation indicates that West Midlands Integrated Transport Authority Pension Fund has taken out a buy-in policy with an insurer to reduce its exposure to asset/liability shocks. Furthermore we understand that a guarantee has been obtained from the parent company of the employer. Both of these provide some additional assistance with solvency risk, but do not fully eliminate that risk.



- 5.26 The 2013 local valuation reports for both funds show that employers are paying additional lump sum contributions in order to meet their liabilities. However, the two transport authority funds are wholly dependent on the performance of a limited company.
- 5.27 As they are closed to new members, their payrolls are also decreasing, which may reduce the scope to be able to meet variations in contributions. This means that they are at risk of requiring outside funding in the future, which in turn may be uncertain.
- 5.28 Had section 13 been in force at the time, we would have raised concerns about the two transport authority funds. We would expect to have engaged with them to discuss their plans. Remedial action may have been recommended, depending on the outcome of that engagement. That remedial action may have included putting in place a plan to pay benefits when they fall due in the environment of no future employer contributions, and may have included a requirement to seek a guarantor (should there not already be one).



6 Long term cost efficiency

For the following two funds we would have engaged with the administering authority to investigate whether the aims of section 13 were met had section 13 applied as at 31 March 2013:

- > Royal County of Berkshire Pension Fund
- > Somerset County Council Pension Fund

A number of other funds have triggered flags. We do not consider that these funds are not meeting the aims of section 13 yet, but we would have encouraged these funds to provide further information regarding the relevant measures.

Neither of the closed Passenger Transport authority pension funds triggered long term cost efficiency flags.

We had some concerns regarding the actual contributions data underlying the contribution shortfall measure. A number of red flags were triggered that we have ignored due to these data concerns. We would have sought additional clarification

- 6.1 Under section 13(4)(c) of the Act, the Government Actuary (as the person appointed by the responsible authority) must, following an actuarial valuation, report on whether the rate of employer contributions to the pension fund (in this case an LGPS pension fund) are set at an appropriate level to ensure the long-term cost efficiency of the scheme, so far as relating to the pension fund.
- 6.2 The accompanying explanatory notes to the Act state that: "Long-term cost-efficiency implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time."
- 6.3 We conclude that the rate of employer contributions has been set at an appropriate level to ensure long term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.
- 6.4 In assessing whether the requirement for long term cost efficiency is met, we had regard to a number of absolute and relative considerations and constructed ten¹⁶ measures to assess these considerations. Data were not available to populate all measures, although we expect data to be available for the section 13 work following the 2016 valuations.

¹⁶ Data were not available to populate all measures. We expect these data to be available for the section 13 work following the 2016 valuations.



6.5 A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned the fund on a standalone basis. In the following table we set out the relative and absolute considerations, and map these to the ten measures.

Table 6.1: Long term cost efficiency measures

Consideration	Measure Used
Relative considerations:	
The pace at which the deficit is expected to be paid off	Deficit Repaid: The proportion of deficit paid off in the first year, where the deficit is calculated on a standardised market consistent basis (SAB key indicator 2(i))
The implied deficit recovery period	Deficit Period: Implied deficit recovery period calculated on a standardised market consistent basis (SAB key indicator 3)
The investment return required to achieve full funding	Required Return: The required investment return rates to achieve full funding in 20 years' time on a standardised market consistent basis (SAB key indicator 4(i))
The pace at which the deficit is expected to be paid off	Repayment Shortfall: The difference between the actual deficit recovery contribution rate and the annual deficit recovery contributions required as a percentage of payroll to pay off the deficit in 20 years, where the deficit is calculated on a standardised market consistent basis
The pace at which the deficit is expected to be paid off	Repayment Pace ¹⁷ : The amount of deficit paid off over each future valuation period, as a proportion of the original deficit, and the number of years required to pay off 50% of the value of original deficit, where the deficit calculations are carried out on a standardised market consistent basis
Absolute Considerations:	
The extent to which the required investment return above is less than the estimated future return being targeted by a fund's investment strategy	Return Scope: The required investment return rates as calculated in required return (i.e. SAB key indicator 4(i)), compared with the fund's expected best estimate future returns assuming current asset mix maintained (SAB key indicator 4(ii))

¹⁷ Data were not available to populate all measures. We expect these data to be available for the section 13 work following the 2016 valuations.



Consideration	Measure Used
The extent to which any deficit recovery plan can be reconciled with, and can be demonstrated to be a continuation of, the previous deficit recovery plan, after allowing for actual fund experience	Deficit Extension: The change in each fund's reported deficit recovery period from the 2010 valuation to the 2013 valuation
If there is a deficit, the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on the deficit over the current inter-valuation period	Interest Cover: A check on whether the annual deficit recovery contributions paid by the fund are sufficient to cover the annual interest payable on that deficit, where the deficit is calculated on a standardised market consistent basis
The extent to which any deficit recovery plan can be reconciled with, and can be demonstrated to be a continuation of, the previous deficit recovery plan, after allowing for actual fund experience	Deficit Reconciliation: ¹⁸ Confirmation that the deficit period can be demonstrated to be a continuation of the previous deficit recovery plan, after allowing for actual fund experience
If there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future	Surplus retention ¹⁶ : Confirmation that contributions from funds not in deficit are not likely to lead to a deficit arising in the future.

- 6.6 Four of these measures were selected from the KPIs defined by the SAB¹⁹.
- 6.7 The selected SAB measures have been augmented with six additional measures which we believe are appropriate in helping to assess whether the aims of section 13 are met.
- 6.8 Three of the measures (deficit extension, deficit reconciliation and surplus retention) were assessed based on the local funds' actuarial bases (i.e. no standardised basis was required), or are proposed to be assessed on these bases as part of the section 13 work following the 2016 valuations. However, because of the inconsistencies in approach highlighted in chapter 4, it was not possible to assess the other measures using the local valuations.

¹⁸ Data were not available to populate all measures. We expect these data to be available for the section 13 work following the 2016 valuations.

¹⁹ <http://committees.westminster.gov.uk/documents/s15058/11%20-%20Appendix%201%20-%20KPI%20Guidance.pdf>



- 6.9 For the remaining measures (deficit repaid, deficit period, required return, repayment shortfall, repayment pace, return scope and interest cover) we assessed the metrics on a standardised market-consistent basis (as set out in Appendix D), or we propose to do so as part of the section 13 work following the 2016 valuations. Although some could have been assessed on the SAB prescribed basis described in Appendix D, the non-market-related SAB basis is not appropriate for some of the comparisons between the funds, and so for consistency, we have adjusted this basis to make it market consistent.
- 6.10 Each fund's score under each measure is colour coded, where:
- > **RED** indicates a potentially material issue that may contribute to a recommendation for remedial action in order to ensure long-term cost efficiency of contributions;
 - > **AMBER** indicates a possible risk to the long-term cost efficiency of contributions; and
 - > **GREEN** indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure long-term cost efficiency of contributions.
- 6.11 It should be noted that these flags are intended to highlight areas for further investigation, but green does not indicate a clean bill of health and also that the fact we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions.
- 6.12 The Environment Agency Closed Fund was excluded from the analyses that follow, as the benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs as set out in the Compliance chapter.
- 6.13 The analyses and calculations carried out under these long-term cost efficiency measures are approximate. They rely on the accuracy of the data provided by the respective local fund actuaries and the data published by DCLG in their SF3 statistics²⁰.
- 6.14 Although the calculations are approximate, we consider they are sufficient for the purposes of identifying which funds are a cause for concern. While the measures should not represent targets, these measures help us determine whether a more detailed review is required; for example, we would have concern where multiple measures are triggered amber for a given fund.
- 6.15 In the table that follows we illustrate the results of each long term cost efficiency measure for each of the individual funds in the LGPS where at least one measure of insolvency was amber or red.

²⁰ <https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-local-authority-data-2014-to-2015>



6.16 The data that have been used to calculate the measures employed in this dry run report are set out in Appendix C while the methodology is set out in Appendix G. The complete table of funds and their long-term cost efficiency measures can be found in Appendix H.

Table 6.2: Open funds with amber or red long term cost efficiency measures

PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
BERKSHIRE	5.9 (78)	4%	34	6%	-2%	-0.5%	-3	No
BROMLEY	6.8 (33)	>50%	2	3%	13%	3.1%	3	Yes
ENVIRONMENT AGENCY ACTIVE ²¹	5.8 (85)	IN SURPLUS	IN SURPLUS	N/A	N/A	N/A	3	N/A
GWENT	5.9 (79)	13%	8	5%	5%	1.5%	5	Yes
SOMERSET	5.9 (80)	5%	24	6%	-1%	0.0%	0	No
STAFFORDSHIRE	6.2 (59)	23%	5	4%	9%	2.4%	5	Yes
WORCESTERSHIRE	6.3 (57)	14%	7	4%	7%	2.0%	2	Yes

Observations based on the long-term cost efficiency measures

Open Funds

- 6.17 Table 6.2 shows those funds that would have given rise to concerns about the long-term cost efficiency of their contributions if the requirements of section 13 were in place as at 31 March 2013.
- 6.18 We will seek a confirmation that these data items are accurate for the section 13 review after the 2016 valuations. We expect that these data will allow us to calculate the average over a three year period, rather than just one year's contributions, to account for any phasing in of contribution rate changes.
- 6.19 Funds that give rise to concern are:
- > Royal County of Berkshire Pension Fund
 - > Somerset County Council Pension Fund

²¹ Some measures are identified as N/A because the fund is in surplus on the market consistent basis.



- 6.20 No flags were raised under the surplus retention measure, so we have excluded this measure from table 6.2. At present, all the funds that were in surplus on the standardised market consistent basis were paying sufficient contributions into their funds, which resulted in an increase in the value of the surplus on the standardised market consistent basis.

Adjustment to results for City of Westminster Pension Fund

- 6.21 As noted in paragraphs 5.19 – 5.22 based on additional information, we recalculated our measures and have reported on this revised basis. The result was that Westminster raised no flags under long term cost efficiency.
- 6.22 Following the 2016 valuation we will request more explicit information and our expectation is that this, together with having highlighted the need for clear and full disclosure and the production of liabilities on the SAB standard basis, will help to improve the overall quality of information provided.

Closed Funds

- 6.23 No flags have been raised in respect of closed funds under long term cost efficiency, hence we have not shown a table in respect of closed funds.

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Government Actuary's Department

LGPS ENGLAND AND WALES

Appendices to Section 13 Dry Run Report

Date: July 2016
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Appendix A: Section 13 of the Public Service Pensions Act 2013¹

13 Employer contributions in funded schemes

- (1) This section applies in relation to a scheme under section 1 which is a defined benefits scheme with a pension fund.
- (2) Scheme regulations must provide for the rate of employer contributions to be set at an appropriate level to ensure—
 - (a) the solvency of the pension fund, and
 - (b) the long-term cost-efficiency of the scheme, so far as relating to the pension fund.
- (3) For that purpose, scheme regulations must require actuarial valuations of the pension fund.
- (4) Where an actuarial valuation under subsection (3) has taken place, a person appointed by the responsible authority is to report on whether the following aims are achieved—
 - (a) the valuation is in accordance with the scheme regulations;
 - (b) the valuation has been carried out in a way which is not inconsistent with other valuations under subsection (3);
 - (c) the rate of employer contributions is set as specified in subsection (2).
- (5) A report under subsection (4) must be published; and a copy must be sent to the scheme manager and (if different) the responsible authority.
- (6) If a report under subsection (4) states that, in the view of the person making the report, any of the aims in that subsection has not been achieved—
 - (a) the report may recommend remedial steps;
 - (b) the scheme manager must—
 - (i) take such remedial steps as the scheme manager considers appropriate, and
 - (ii) publish details of those steps and the reasons for taking them;
 - (c) the responsible authority may—
 - (i) require the scheme manager to report on progress in taking remedial steps;
 - (ii) direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.
- (7) The person appointed under subsection (4) must, in the view of the responsible authority, be appropriately qualified.

¹ <http://www.legislation.gov.uk/ukpga/2013/25/section/13>



Appendix B: Extracts from other relevant regulations

Regulations 35 and 36 from 'The Local Government Pension Scheme (Administration) Regulations 2008'²

Funding strategy statement

35.—(1) This regulation applies to the funding strategy statement prepared and published by an administering authority under regulation 76A of the 1997 Regulations³.

(2) The authority must—

- (a) keep the statement under review;
- (b) make such revisions as are appropriate following a material change—
 - (i) in its policy on the matters set out in the statement, or
 - (ii) to the current version of its statement under regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (statement of investment principles); and
- (c) if revisions are made, publish the statement as revised.

(3) In reviewing and making revisions to the statement, the authority must—

- (a) have regard to the guidance set out in the document published in March 2004 by CIPFA and called "CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement (Guidance note issue No.6)"; and
- (b) consult such persons as it considers appropriate.

Actuarial valuations and certificates

36.—(1) Each administering authority must obtain—

- (a) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2010 and in every third year afterwards;
- (b) a report by an actuary in respect of the valuation; and
- (c) a rates and adjustments certificate prepared by an actuary.

(2) Each of those documents must be obtained before the first anniversary of the date ("the valuation date") as at which the valuation is made or such later date as the Secretary of State may agree.

(3) A report under paragraph (1)(b) must contain a statement of the demographic assumptions used in making the valuation; and the statement must show how the assumptions relate to the events which have actually occurred in relation to members of the Scheme since the last valuation.

² <http://www.legislation.gov.uk/uksi/2008/239/contents/made>

³ Regulation 76A was inserted by [The Local Government Pension Scheme \(Amendment\) Regulations 2004](#)



- (4) A rates and adjustments certificate is a certificate specifying—
- (a) the common rate of employer's contribution; and
 - (b) any individual adjustments,
- for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.
- (5) The common rate of employer's contribution is the amount which, in the actuary's opinion, should be paid to the fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members.
- (6) The actuary must have regard to—
- (a) the existing and prospective liabilities of the fund arising from circumstances common to all those bodies;
 - (b) the desirability of maintaining as nearly constant a common rate as possible; and
 - (c) the current version of the administering authority's funding strategy statement mentioned in regulation 35.
- (7) An individual adjustment is any percentage or amount by which, in the actuary's opinion, contributions at the common rate should, in the case of a particular body, be increased or reduced by reason of any circumstances peculiar to that body.
- (8) A rates and adjustments certificate must contain a statement of the assumptions on which the certificate is given as respects—
- (a) the number of members who will become entitled to payment of pensions under provisions of the Scheme; and
 - (b) the amount of the liabilities arising in respect of such members, during the period covered by the certificate.
- (9) The authority must provide the actuary preparing a valuation or a rates and adjustments certificate with the consolidated revenue account of the fund and such other information as he requests.



Regulation 12 of 'The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009⁴'

Statement of investment principles

12.—(1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain (in accordance with paragraph (5)) and publish a written statement of the principles governing its decisions about the investment of fund money.

(2) The statement must cover its policy on—

- (a) the types of investment to be held;
- (b) the balance between different types of investments;
- (c) risk, including the ways in which risks are to be measured and managed;
- (d) the expected return on investments;
- (e) the realisation of investments;
- (f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
- (g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and
- (h) stock lending.

(3) The statement must also state the extent to which the administering authority complies with guidance given by the Secretary of State, and, to the extent the authority does not so comply, the reasons for not complying.

(4) The first such statement must be published no later than 1st July 2010.

(5) The statement must be reviewed, and if necessary, revised, by the administering authority from time to time and, in the case of any material change in the authority's policy on the matters referred to in paragraphs (2) and (3), before the end of a period of six months beginning with the date of that change.

(6) A statement revised under paragraph (5) must be published.

⁴ <http://www.legislation.gov.uk/ukxi/2009/3093/regulation/12/made>



Regulations 58 and 62 of 'The Local Government Pension Scheme Regulations 2013'⁵

Funding strategy statement

- 58.—(1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.
- (2) The statement must be published no later than 31st March 2015.
- (3) The authority must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement, and if revisions are made, publish the statement as revised.
- (4) In preparing, maintaining and reviewing the statement, the administering authority must have regard to—
- (a) the guidance set out in the document published in March 2004 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called “CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement (Guidance note issue No. 6)⁶”; and
- (b) the statement of investment principles published by the administering authority under regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Actuarial valuations of pension funds

- 62.—(1) An administering authority must obtain—
- (a) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards;
- (b) a report by an actuary in respect of the valuation; and
- (c) a rates and adjustments certificate prepared by an actuary.
- (2) Each of those documents must be obtained before the first anniversary of the date (“the valuation date”) as at which the valuation is made or such later date as the Secretary of State may agree.
- (3) A report under paragraph (1)(b) must contain a statement of the demographic assumptions used in making the valuation; and the statement must show how the assumptions relate to the events which have actually occurred in relation to members of the Scheme since the last valuation.
- (4) A rates and adjustments certificate is a certificate specifying—

⁵ <http://www.legislation.gov.uk/ukxi/2013/2356/contents/made>

⁶ ISBN Number 085299 996 8; copies may be obtained from CIPFA at 3 Robert Street, London, WC2N 6RL



- (a) the primary rate of the employer's contribution; and
 - (b) the secondary rate of the employer's contribution,
- for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.
- (5) The primary rate of an employer's contribution is the amount in respect of the cost of future accruals which, in the actuary's opinion, should be paid to a fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members.
 - (6) The actuary must have regard to—
 - (a) the existing and prospective liabilities arising from circumstances common to all those bodies;
 - (b) the desirability of maintaining as nearly constant a common rate as possible;
 - (c) the current version of the administering authority's funding strategy mentioned in regulation 58 (funding strategy statements); and
 - (d) the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as relating to the pension fund.
 - (7) The secondary rate of an employer's contributions is any percentage or amount by which, in the actuary's opinion, contributions at the primary rate should, in the case of a Scheme employer, be increased or reduced by reason of any circumstances peculiar to that employer.
 - (8) A rates and adjustments certificate must contain a statement of the assumptions on which the certificate is given as respects—
 - (a) the number of members who will become entitled to payment of pensions under the provisions of the Scheme; and
 - (b) the amount of the liabilities arising in respect of such members, during the period covered by the certificate.
 - (9) The administering authority must provide the actuary preparing a valuation or a rates and adjustments certificate with the consolidated revenue account of the fund and such other information as the actuary requests.



Appendix C: Data provided

- C.1 At the request of the Department for Communities and Local Government ('DCLG') the Government Actuary's Department ('GAD') has collected data from each fund's 2013 valuation report. These actuarial funding valuations were conducted by four actuarial firms:
- > Aon Hewitt
 - > Barnett Waddingham
 - > Hymans Robertson
 - > Mercer
- C.2 Data were received from the relevant local actuary or the administering authority for 89 of the 91 pension funds. Information for the Environment Agency Closed Fund and South Yorkshire Passenger Transport Authority Pension Fund have been taken directly from their respective 2013 valuation reports by GAD.
- C.3 Limited checks, consisting of spot checks to make sure that data entries appear sensible, have been performed by GAD and the data received appears to be of sufficient quality for the purpose of analysing the 2013 valuation results. These checks do not represent a full, independent audit of the data supplied. The analysis contained in this report relies on the general completeness and accuracy of the information supplied by the administering authority or their actuaries.
- C.4 In addition, data has been collated from the '*Local government pension scheme funds local authority data*', which is published annually by DCLG. This published data may be referred to elsewhere as SF3 statistics.
- C.5 Unless otherwise stated the data detailed above has been used to inform the analysis contained in the LGPS England and Wales Section 13 Dry Run Report.
- C.6 The original data request sent to individual funds for the collection of 2013 valuation data and accompanying explanatory notes now follow.



Data specification

1) MEMBERSHIP DATA

Data split by gender.

- a) Active members: number, average age (weighted as appropriate), average period of membership, total rate of annual actual pensionable pay at 31 March 2013, total rate of annual FTE pensionable pay at 31 March 2013,
- b) Deferred members: number, average age (weighted as appropriate), total annual preserved pension revalued to 31 March 2013. Note this should exclude undecided members.
- c) Pensioners (former members): number, average age (weighted as appropriate), total annual pensions in payment at 31 March
- d) Pensioners (dependants including partners and children): number, average age (weighted as appropriate), total annual pensions in payment at 31 March
- e) Pensionable pay definition, has the 2008 or 2014 definition been used to assess pensionable pay

2) FINANCIAL ASSUMPTIONS

Provide separately for past service liabilities and future contributions, if different assumptions adopted. If different assumptions are adopted for Scheduled bodies and Admitted bodies the assumptions adopted for Scheduled bodies should be entered.

- a) Nominal discount rate (pre & post retirement separately if applicable)
- b) RPI inflation
- c) CPI inflation rate
- d) Earnings inflation

3) DEMOGRAPHIC ASSUMPTIONS

Rates to be provided at sample ages split by gender

- a) Age Retirement Assumptions (split between members with and without Rule of 85 protection)
- b) Rates of Ill-health Retirement from Active service
- c) Distribution of ill health retirements between tiers 1, 2 and 3
- d) Rates of Withdrawal from Active service
- e) Death in Service Rates
- f) Promotional Salary Scale (if not included in earnings inflation assumption)
- g) Proportions Partnered
- h) Age disparity between Member & Partner
- i) Commutation Assumptions
- j) Assumed life expectancy for pensioner members aged 65 and active / deferred members at age 65 if they are currently aged 45 (for members retiring on normal health, members retiring on ill health and dependents)
- k) Description of post retirement mortality assumption (baseline and future improvements)

4) ASSETS

- a) Value of Assets (market value)
- b) Actual Asset Distribution (split by UK equities, overseas equities, corporate bonds, gilts, property, cash and other investments).

5) LIABILITIES AND FUTURE CONTRIBUTION RATE

- a) Common contribution rate
- b) Standard Contribution Rate
- c) Contribution rate in respect of surplus or deficit
- d) Assumed member contribution yield
- e) Expenses, split by administration and (if not included implicitly in discount rate) investment



- f) Past Service Liability – split between Actives, Deferred and Pensioners
 - g) Funding Level
 - h) Surplus / Deficit at valuation date
 - i) Deficit Recovery Period
 - j) Past Service Liability (on a low risk / gilts basis) – split between Actives, Deferred and Pensioners
- 6) REVENUE ACCOUNTS
- a) Value of assets at last valuation (after any smoothing or other adjustments)
 - b) Value of assets at this valuation (after any smoothing or other adjustments)
 - c) Total Income: Employee contributions, normal employer contributions, special employer contributions, transfers in, investment income, other income
 - d) Total Expenditure: Pensions paid, retirement lump sums paid, other lump sums paid, transfers out, investment expenses, administration expenses, other outgoings
- 7) ANALYSIS OF SURPLUS (PAST SERVICE LIABILITY)
- a) Surplus / Deficit at last valuation
 - b) Interest on Surplus/Deficit
 - c) Difference between contribution paid and cost of benefits accrued
 - d) Experience gains and losses (including amounts in the following categories where analysed: Investment Return experience, Salary Increase experience, Pension Increase experience, Pensioner Mortality experience, Other Demographic experience)
 - e) Change in assumptions (including amounts in the following categories where analysed: financial assumptions, mortality assumptions, other demographic assumptions)
 - f) Other
 - g) Surplus / Deficit at this valuation
- 8) ANALYSIS OF CHANGE IN FUTURE SERVICE CONTRIBUTION RATE
- a) Future service rate at last valuation
 - b) Effect of change in assumptions (including amounts in the following categories where analysed: financial assumptions, mortality assumptions, other demographic assumptions)
 - c) Change due to introduction new benefit design from April 2014
 - d) Other
 - e) Future service rate at this valuation (common contribution rate)
- 9) AVERAGE EMPLOYER CONTRIBUTION RATE
- a) Average employer contribution rate 2014/15, allowing for both contributions paid as a percentage of salary and fixed monetary contributions (where deficit contributions are fixed)
- 10) EXPERIENCE OVER THE INTERVALUATION PERIOD
Please only provide data that is readily available
- a) Actual and expected numbers of deaths in service
 - b) Actual and expected numbers of withdrawals
 - c) Actual and expected numbers of age retirements
 - d) Actual and expected numbers of ill-health retirements
 - e) Actual and expected pensioner deaths (by lives and amount of pension).
 - f) Actual and expected numbers of severance / redundancy
 - g) Actual and assumed amount of commuted lump sum
- 11) POST 2014 SCHEME
- a) Proportion of members assumed to be in 50/50 scheme
 - b) State Pension Ages used for assessment



Explanatory notes

- Common contribution rate:** All data requested relates to the common contribution rate, unless otherwise noted.
- 1 Membership data:** Average ages should be unweighted, weighted by salary/pension and weighted liability as available. Accrued pensions should include the 2013 Pension Increase Order.
- 3 Demographic Assumptions:** We expect this to be shown at sample ages only which will be specified in our template. For example for in service decrement we intend to use five-year intervals from 20 to 65.
- 3j Life expectancies:** The life expectancies requested in section 3 j) should be the average life expectancy across the whole fund.
- 5d Assumed member contribution yield:** This is the contribution yield that members are assumed to pay over the valuation period. It will vary by authority due to the tiered member contribution rates.
- 9 Average employer contribution rate:** This should be calculated as projected employer contributions in 2014/15 divided by projected pensionable pay in 2014/15. Since projected pensionable pay acts only as the weightings in this weighted average, it is acceptable to use a simple projection of pensionable pay (e.g. based on actual pensionable pay at 31 Mar 2013).
- 10 Experience over the intervaluation period:** We would only expect experience that has been analysed and is readily available to be included in this section.
- 11b State Pension Age used for assessment:** This item refers to the assumed State Pension Ages that have been used in the funding valuation, for example whether allowance has been made for the State Pension Age to increase from age 66 to 67 between 2026 and 2028 (which is Government Policy but has not yet been approved by Parliament).

Adjustment to results for City of Westminster Pension Fund and London Borough of Waltham Forest Pension Fund

- C.7** As noted in paragraph 2.9, the purpose of the flags is to identify authorities with whom we might engage and potentially seek additional information from. The importance of clear disclosure in the valuation reports and accurate provision of data from the local authorities and the actuarial firms is highlighted by two examples from our analysis.
- C.8** For the City of Westminster Pension Fund, we sought more information from the fund's actuary, clarifying the different actuarial basis that had been applied to some admission bodies, whereas our standard assessment methodology had relied on the same actuarial assumptions being applied for all participating employers in the fund except where this was clear from the valuation report. Based on this additional information, we recalculated our measures and have reported on this revised basis. The result was that Westminster raised only two amber flags.



- C.9 For the Borough of Waltham Forest Pension Fund, following engagement with the fund's actuary, we were advised that a material proportion of members had seemingly been incorrectly classified in SF3 data returns. Upon receipt of data reflecting a revised classification of those members, we were able to conclude that Waltham Forest raised only one amber flag.
- C.10 Following the 2016 valuation we will request more explicit information and our expectation is that this, together with having highlighted the need for clear and full disclosure and the production of liabilities on the SAB standard basis, will help to improve the overall quality of information provided.



Appendix D: Assumptions

- D.1 Each section of analysis contained in the main report is based on one of three sets of assumptions:
- > The local fund assumptions, as used in the fund's 2013 actuarial valuation
 - > The SAB standardised set of assumptions, or SAB standard basis
 - > A market consistent set of assumptions
- D.2 Details of local fund assumptions can be found in each fund's actuarial valuation report as at 31 March 2013. An analysis of the differences in assumptions between funds is contained in the 'Consistency' chapter of the main report.
- D.3 Details of the SAB standard basis and the market consistent basis can be found in the tables below. Differences between the bases are highlighted in orange.

Table D.1: SAB standard basis⁷

ASSUMPTION	DETAILS
METHODOLOGY	Projected Unit Methodology with 1 year control period
RATE OF PENSION INCREASES	2% per annum
PUBLIC SECTOR EARNINGS GROWTH	3.5% per annum
DISCOUNT RATE	5.06% per annum
POST RETIREMENT MORTALITY RATES	Long term reduction in mortality rates of 1.5% per annum
CHANGES TO STATE PENSION AGE	As legislated
PENSIONER BASELINE MORTALITY	Set locally based on Fund experience
AGE RETIREMENT	Set locally based on Fund experience
ILL HEALTH RETIREMENT RATES	Set locally based on Fund experience
WITHDRAWAL RATES	Set locally based on Fund experience
DEATH BEFORE RETIREMENT RATES	Set locally based on Fund experience
PROMOTIONAL SALARY SCALES	None
COMMUTATION	We have used the SAB future service cost assumption of 65% of the maximum allowable amount. This is equivalent to 23.2% of post 2008 pension and 12.8% of pre 2008 pension
FAMILY STATISTICS	Set locally based on Fund experience

⁷ This is the 5 February 2015 iteration, details of which can be found in the minutes of the Scheme Advisory Board's meeting of 5 February 2015 at:
<http://www.lgpsboard.org/images/PDF/CMCMar2015/Item4-StandardisedFundingAssumptions.pdf>



Table D.2: Market consistent basis

ASSUMPTION	DETAILS
METHODOLOGY	Projected Unit Methodology with 1 year control period
RATE OF PENSION INCREASES	2.25% per annum
PUBLIC SECTOR EARNINGS GROWTH	4.5% per annum
DISCOUNT RATE	5.92% per annum
POST RETIREMENT MORTALITY RATES	As set out in GAD's 2013 scheme wide actuarial valuation
CHANGES TO STATE PENSION AGE	As legislated
PENSIONER BASELINE MORTALITY	As set out in GAD's 2013 scheme wide actuarial valuation
AGE RETIREMENT	Set locally based on Fund experience
ILL HEALTH RETIREMENT RATES	Set locally based on Fund experience
WITHDRAWAL RATES	Set locally based on Fund experience
DEATH BEFORE RETIREMENT RATES	Set locally based on Fund experience
PROMOTIONAL SALARY SCALES	Set locally based on Fund experience
COMMUTATION	Set locally based on Fund experience
FAMILY STATISTICS	Set locally based on Fund experience

- D.4 The financial assumptions under the market consistent basis were set with reference to GAD's best estimate view of future market movements as at 31 March 2013.
- D.5 The post-retirement mortality assumptions are as set out in GAD's 2013 scheme wide actuarial valuation and were derived after analysing scheme wide mortality experience. The market consistent basis uses these assumptions rather than those set locally as analysis showed local rates, when taken as a whole, were materially higher (i.e. life expectancies were materially lower) than GAD's 2013 scheme wide rates.
- D.6 Promotional salary scales and rates of commutation are likely to vary between funds. The market consistent basis allows for this variation by using the rates set in the local 2013 actuarial valuations.



Appendix E: Solvency measures – methodology

- E.1 This Appendix details the methodology behind the measures used to assess a fund's solvency position. Some of the measures listed below were calculated using a market consistent set of assumptions. For more information on this market consistent basis please see Appendix D.

SAB funding level: A fund's funding level using the SAB standard basis

- E.2 This measure highlights possible risks to a fund as a result of assets being significantly lower than liabilities, where liabilities are those estimated on the SAB standard basis detailed in Appendix D.
- E.3 A lower funding level may lead to greater default risk amongst employers without tax raising powers or statutory backing and can leave a fund at greater risk of adverse market movements.
- E.4 This measure assesses the relative funding levels of individual funds. All funds have been ordered by this measure (highest funding level first) and the ten funds ranked 82 to 91, out of 91 are assigned an amber colour code. All other funds are assigned a green colour code.

Open fund: Whether the fund is open to new members

- E.5 A scheme that is closed to new members will be closer to maturity than a scheme which is still open. This creates a possible risk to sponsoring employees as there is less scope to make regular contributions and receive investment returns on those contributions. Additionally, if problems do occur with the scheme funding level, the reduced time maturity of the scheme means that additional contributions must be spread over a shorter timeframe, and could be more volatile as a result. Employer interest in the scheme may also start to wane and could lead to a failure to make required contributions in the future.
- E.6 This measure is a 'Yes' when a fund is still open to new members and a 'No' otherwise. A 'Yes' results in a green colour code, while a 'No' results in an amber colour code.

Non-statutory employees: The proportion of employees within the fund who are employed by an employer without tax raising powers or statutory backing

- E.7 LGPS regulations require employers to pay contributions set in the valuation. DCLG has confirmed that:
- > there is a guarantee of LGPS pension liabilities by a public body;



- > that public bodies are incapable of becoming insolvent; and
 - > governing legislation is designed to ensure the solvency and long term economic efficiency of the Scheme.
- E.8 It is important, in this context, that administering authorities and other employers understand the potential cost that may fall on taxpayers in the future if employers without statutory backing or tax raising powers are unable to meet their required contributions and those with such powers become responsible for the accrued costs.
- E.9 Data for this measure has been taken from the publically available '*Local government pension scheme funds local authority data: 2014 to 2015*' published by DCLG⁸. The data contains the number of employees within each fund by employer group, where:
- > Group 1 refers to local authorities and connected bodies;
 - > Group 2 refers to centrally funded public sector bodies;
 - > Group 3 refers to other public sector bodies; and
 - > Group 4 refers to private sector, voluntary sector and other bodies.
- E.10 For the purposes of this measure, and unless information has been provided to the contrary, it has been assumed that employers listed under groups 1 and 2 are those ***with*** tax raising powers or statutory backing and that employers listed under groups 3 and 4 are those ***without*** tax raising powers or statutory backing.
- E.11 The measure therefore gives the proportion of employees within the fund that are employed by group 1 and 2 employers as a proportion of all employees within the fund.
- E.12 The proportions quoted in this report are based on number of employees as at March 2015 as the required data were not available for March 2013. However, it is assumed that this proportion will not have varied much over the two years from the date of the last triennial actuarial valuations, 31 March 2013. The 2016 Section 13 report will use proportions as at March 2016 which we plan to base on liabilities rather than number of employees.
- E.13 The required data were not available for:
- > Environment Agency Active Fund;
 - > London Borough of Haringey Pension Fund; and
 - > London Borough of Newham Pension Fund.
- E.14 Under this measure a fund has been allocated a red colour code if their proportion of employees who are employed by an employer without tax raising powers or statutory backing is greater than 50%.

⁸ <https://www.gov.uk/government/collections/local-government-pension-scheme>



- E.15 A fund has been allocated an amber colour code if their proportion of employees who are employed by an employer without tax raising powers or statutory is between 25% and 50%, and a green colour code in all other cases.

Contribution cover: Actual contributions paid by the fund as a proportion of local authority income

- E.16 This measure does not form part of this 2013 dry run report as the required data were unavailable. However, it is expected to be used as a measure of solvency in the 2016 Section 13 report.
- E.17 Continued solvency of a fund depends on the ongoing ability of employers to pay contributions into the fund, which may be higher or lower than at present. If contributions are a low proportion of income (or outgo) employers are likely to find it easier to cope with any increase in contributions that is required.
- E.18 This measure should give the actual contributions paid by the fund in the 2012/13 financial year as a proportion of local authority income over the same year. It is important to note that this measure is based on actual contributions. These may not be the same as the contribution rates derived in a fund's actuarial valuation as contribution rates are sometimes smoothed to reduce volatility. There may also have been additional lump sum contributions made.
- E.19 Under this measure, a fund where the actual contributions paid as a proportion of local authority income are higher than $x\%$ ⁹ will be assigned a red colour code.
- E.20 A fund where the actual contributions paid as a proportion of local authority income is between $x\%$ and $y\%$ will be assigned an amber colour code, while funds with a lower proportion will be assigned a green colour code.

Liability Shock: The change in average employer contribution rates as a percentage of payroll after a 10% increase in liabilities

- E.21 Contribution rates are normally specified as a percentage of payroll. They are likely to vary at each triennial actuarial valuation in response to economic conditions, both at the time of the valuation and assumed future economic conditions, and fund experience over the inter-valuation period. These factors could cause either an increase or decrease in required contributions.

⁹ Where a measure does not form part of the 2013 dry run report trigger points are listed as $x\%$ or $y\%$. The actual level of these trigger point will be determined when completing the section 13 review following the 2016 local valuations.



- E.22 The continued solvency of a fund depends on the ongoing ability of employers to pay the required contributions into the fund, whether they are higher or lower than at present. If contributions are a low proportion of a fund's payroll employers are likely to find it easier to meet increased required contributions.
- E.23 Total employer contribution rates are often split into contributions required to cover the expected cost of future accrual of benefits and contributions required to eliminate any existing deficit. Contributions in respect of deficit will increase if a fund's deficit increases, i.e. if a fund's asset value falls or liabilities increase, assuming the assumptions underlying the deficit remain unchanged.
- E.24 This measure investigates the effect of an increase in a fund's liabilities on total employer contribution rates, as a proportion of payroll. The necessary calculations have been undertaken by simulating a one-off increase to liabilities of 10% of their 31 March 2013 value. For the purposes of this measure, liabilities have been set out on the standardised market consistent basis and deficit recovery periods have been standardised using a period of 20 years to ensure that results are comparable. Where a fund is in surplus under the standardised market consistent basis, the surplus is assumed to be paid back to the employer over a period of 20 years through reduced contribution rates.
- E.25 The measure is the change in total employer contribution rate from the resulting from the increase to liabilities. A high figure indicates that contributions rates as a proportion of payroll are highly sensitive to a change in liabilities. This could be a result of a low payroll.
- E.26 A fund is allocated a red colour code if its result is greater than 7.5%, an amber colour code if its result is between 5.0% and 7.5% and a green colour code otherwise.
- E.27 Note that no results are available for the Environment Agency Closed Fund as there are no remaining active members within the fund with which to calculate contribution rates.

Liability shock cover: The change in average employer contribution rates as a percentage of local authority income after a 10% increase in liabilities

- E.28 This measure does not form part of this 2013 Section 13 report as the required data were unavailable. However, it is expected to be used as a measure of solvency in the 2016 Section 13 report.
- E.29 The results under this measure are expected to be similar to those under the liability shock measure. This measure may therefore be used instead of, rather than in addition to, liability shock in the 2016 Section 13 Report.
- E.30 It is likely that a fund where the required employer contributions are a low proportion of total income (or outgo) will be more able to meet any increase in contributions required at future valuations



- E.31 Under both measures a fund will be allocated a red colour code if its result is greater than x%, an amber colour code if its result is between x% and y%, and a green colour code otherwise.

Asset shock: The change in average employer contribution rates as a percentage of payroll after a 15% fall in value of return-seeking assets

- E.32 This measure shows the effect on total employer contribution rates (as a percentage of payroll) of a one off decrease in the value of a fund's return seeking assets equal to 15% of the value of those assets. Defensive assets are assumed to be unaffected.

- E.33 For the purposes of this measure liabilities have restated on the standardised market consistent basis and deficit recovery periods have been standardised using a period of 20 years to ensure that results are comparable. Where a fund is in surplus under the standardised market consistent basis, the surplus is assumed to be paid back to the employer over a period of 20 years.

- E.34 Return-seeking asset classes are assumed to be:

- > Overseas Equities;
- > UK Equities;
- > Other Investments; and
- > Property.

Defensive asset classes are assumed to be:

- > Cash;
- > Gilts; and
- > Corporate Bonds.

- E.35 We investigated the 'Other Investments' category in respect of the two funds flagged up red under this measure and it was found that only West Midland ITA had a significant amount, of which just over 80% related to a buy-in policy. This buy-in policy has been allowed for as a defensive asset in our calculations.

- E.36 Under this measure, a fund invested entirely in return-seeking assets will experience a decrease in total asset value of 15%. A fund with no exposure to return-seeking assets will experience no decrease in total asset value. In practice, the majority of funds will experience decreases between these two extremes, dependant on their investment strategy.

- E.37 In general we have treated 'other investments' in the same manner as equities. However, we have investigated the actual nature of 'other investments' where a flag has been raised. We intend to investigate in more depth for our 2016 Section 13 valuation report.



- E.38 The one-off decrease in asset values results in an increase in fund deficits (or reduction in surpluses). As deficit recovery periods are constant, employer contributions in respect of deficits will increase. If contributions are a small proportion of payrolls employers are likely to be able to better cope with this increase.
- E.39 The measure gives the change in contribution rate from the pre-decrease value. A high number indicates that contribution rates as a proportion of payroll are highly sensitive to a change in the value of return seeking assets.
- E.40 A fund is allocated a red colour code if its result is greater than 7.5%, an amber colour code if its result is between 5.0% and 7.5% and a green colour code otherwise.
- E.41 Note that no results are available for the Environment Agency Closed Fund as there are no remaining active members within the fund with which to calculate contribution rates.

Asset shock cover: The change in average employer contribution rates as a percentage of local authority income after a 15% fall in value of return-seeking assets

- E.42 This measure does not form part of this 2013 Section 13 report as the required data were not available. However, it is expected to be used as a measure of solvency in the 2016 Section 13 report.
- E.43 The results under this measure are expected to be similar to those under the asset shock measure. This measure may therefore be used instead of, rather than in addition to, the asset shock measure in the 2016 Section 13 Report.
- E.44 It is likely that a fund where the required employer contributions are a low proportion of total income (or outgo) will be more able to meet any increase in contributions required at future valuations
- E.45 The measure will be calculated in the same way as the asset shock measure, detailed above, except that total contribution rates and the increases resulting from a 15% fall in the value of return-seeking assets will be measured as a percentage of local authority income, rather than a percentage of payroll.
- E.46 Under this measure a fund will be allocated a red colour code if its result is greater than x%, an amber colour code if its result is between x% and y% and a green colour code otherwise.

Employer default: The change in average employer contribution rates as a percentage of payroll if all employer's without tax raising powers or statutory backing default on their existing deficits

- E.47 LGPS regulations require employers to pay contributions set in the valuation. DCLG has confirmed that:



- > there is a guarantee of LGPS pension liabilities by a public body;
- > that public body is incapable of becoming insolvent; and
- > the governing legislation is designed to ensure the solvency and long term economic efficiency of the Scheme.

- E.48 It is important, in this context, that administering authorities and other employers understand the potential cost that may fall on taxpayers in the future if employers without statutory backing or tax raising powers are unable to meet their required contributions and those with such powers become responsible for the accrued costs.
- E.49 For the purposes of this measure liabilities have been restated on the standardised market consistent basis and deficit recovery periods have been standardised using a period of 20 years to ensure that results are comparable. Where a fund is in surplus under the standardised market consistent basis, the surplus is assumed to be paid back to the employer over a period of 20 years.
- E.50 A fund's deficit will not change as a result of the default, but as the deficit is spread over a smaller number of employers each the contribution rate for each remaining employer will increase.
- E.51 If a fund is in surplus it is assumed that those employers without tax raising powers or statutory backing default on their proportion of the surplus. This will have the effect of reducing contributions for those funds in surplus on the standardised market consistent basis who have a non-zero number of employees employed by employers without tax raising powers or statutory backing.
- E.52 The measure shows the increase in total contribution rates that has resulted from the default of employers without tax raising powers or statutory backing.
- E.53 Data were not available for:
- > Environment Agency Active Fund;
 - > London Borough of Haringey Pension Fund; and
 - > London Borough of Newham Pension Fund.
- E.54 A fund is allocated a red colour code if its result is greater than 3%, an amber colour code if its result is between 2% and 3% and a green colour code otherwise.

Employer default cover: Average employer contribution rates as a percentage of local authority income if all employer's without tax raising powers or statutory backing default on their existing deficits

- E.55 This measure does not form part of this 2013 Section 13 report as the required data were not available. However, it is expected to be used as a measure of solvency in the 2016 Section 13 report.



- E.56 The results under this measure are expected to be similar to those under the employer default measure. This measure may therefore be used instead of, rather than in addition to, the employer default measure in the 2016 Section 13 Report.
- E.57 It is likely that a fund where the required employer contributions resulting from a default of employer's without tax raising powers or statutory backing are a low proportion of total income (or outgo) will be more able to meet any increase in contributions required.
- E.58 The measure will be calculated as the increases resulting from the default measured as a percentage of local authority income.
- E.59 A fund will be allocated a red colour code if its result is greater than x%, an amber colour code if its result is between x% and y% and a green colour code otherwise.



Appendix F: Solvency measures – by fund

Table F1: Solvency measures by fund

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
AVON	5.9 (82)	92%	YES	6%	+3%	+4%	+0%
BARKING AND DAGENHAM	6.5 (45)	83%	YES	21%	+4%	+3%	+1%
BARNET	6.8 (31)	79%	YES	0%	+4%	+3%	+0%
BEDFORDSHIRE	5.9 (76)	78%	YES	4%	+3%	+3%	+0%
BERKSHIRE	5.9 (78)	73%	YES	6%	+3%	+3%	+1%
BEXLEY	7.4 (14)	99%	YES	7%	+4%	+6%	-0%
BRENT	6.9 (28)	67%	YES	0%	+4%	+3%	+0%
BROMLEY	6.8 (33)	93%	YES	2%	+4%	+5%	+0%
BUCKINGHAMSHIRE	5.6 (87)	81%	YES	5%	+3%	+3%	+0%
CAMBRIDGESHIRE	5.8 (83)	89%	YES	5%	+3%	+4%	+0%
CAMDEN	8.6 (7)	91%	YES	9%	+5%	+6%	+0%
CARDIFF AND GLAMORGAN	6.8 (32)	79%	YES	6%	+4%	+4%	+0%
CHESHIRE	6.5 (41)	95%	YES	8%	+4%	+4%	+0%
CITY OF LONDON	7.3 (18)	83%	YES	9%	+4%	+4%	+1%
CLWYD	6 (73)	83%	YES	1%	+3%	+4%	+0%
CORNWALL	5.8 (84)	93%	YES	7%	+3%	+4%	+0%
CROYDON	6.7 (37)	72%	YES	5%	+4%	+3%	+1%
CUMBRIA	6.7 (38)	96%	YES	0%	+4%	+4%	+0%
DERBYSHIRE	5.9 (77)	96%	YES	5%	+3%	+4%	+0%
DEVON	6.4 (48)	82%	YES	11%	+4%	+4%	+1%
DORSET	6 (74)	82%	YES	9%	+3%	+4%	+1%
DURHAM	6.9 (27)	86%	YES	3%	+4%	+4%	+0%
DYFED	5.6 (88)	105%	YES	4%	+3%	+4%	-0%
EALING	6.3 (53)	88%	YES	11%	+4%	+4%	+0%
EAST RIDING	6.3 (55)	93%	YES	4%	+4%	+4%	+0%



PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
EAST SUSSEX	6.3 (52)	98%	YES	2%	+4%	+5%	-0%
ENFIELD	6.1 (66)	85%	YES	3%	+4%	+3%	+0%
ENVIRONMENT AGENCY ACTIVE	5.8 (85)	103%	YES	N/A	+3%	+4%	N/A
ESSEX	6.2 (65)	83%	YES	16%	+4%	+4%	+1%
GLOUCESTERSHIRE	6.7 (36)	83%	YES	9%	+4%	+4%	+1%
GREATER MANCHESTER	7.2 (22)	103%	YES	22%	+4%	+5%	-1%
GREENWICH	7.2 (21)	85%	YES	6%	+4%	+5%	+0%
GWENT	5.9 (79)	84%	YES	6%	+3%	+4%	+0%
GWYNEDD	5.2 (90)	102%	YES	5%	+3%	+4%	-0%
HACKNEY	7.4 (15)	86%	YES	0%	+4%	+5%	+0%
HAMMERSMITH	8.9 (6)	83%	YES	6%	+5%	+6%	+0%
HAMPSHIRE	6.4 (50)	80%	YES	3%	+4%	+3%	+0%
HARINGEY	7.8 (11)	84%	YES	N/A	+4%	+5%	N/A
HARROW	6.6 (39)	83%	YES	2%	+4%	+4%	+0%
HAVERING	6.8 (34)	68%	YES	1%	+4%	+3%	+0%
HERTFORDSHIRE	6.4 (49)	94%	YES	6%	+4%	+4%	+0%
HILLINGDON	6.2 (64)	83%	YES	25%	+4%	+3%	+1%
HOUNSLOW	6.3 (58)	84%	YES	14%	+4%	+3%	+1%
ISLE OF WIGHT	7.4 (16)	94%	YES	3%	+4%	+5%	+0%
ISLINGTON	6.8 (30)	86%	YES	7%	+4%	+4%	+0%
KENSINGTON AND CHELSEA	7.7 (13)	96%	YES	5%	+4%	+6%	-0%
KENT	6.2 (63)	83%	YES	10%	+4%	+4%	+1%
KINGSTON-UPON-THAMES	6.1 (71)	85%	YES	6%	+3%	+4%	+0%
LAMBETH	8.9 (5)	87%	YES	5%	+5%	+5%	+0%
LANCASHIRE	6.1 (70)	93%	YES	7%	+3%	+4%	+0%
LEICESTERSHIRE	5.7 (86)	85%	YES	5%	+3%	+3%	+0%
LEWISHAM	7.8 (10)	86%	YES	16%	+4%	+5%	+1%
LINCOLNSHIRE	6.3 (56)	85%	YES	8%	+4%	+4%	+0%



PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
LONDON PENSIONS FUND	9.6 (4)	92%	YES	0%	+6%	+4%	+0%
MERSEYSIDE	7.3 (17)	92%	YES	13%	+4%	+5%	+0%
MERTON	7.1 (25)	91%	YES	3%	+4%	+4%	+0%
NEWHAM	7.3 (19)	75%	YES	N/A	+4%	+4%	N/A
NORFOLK	6.6 (40)	91%	YES	9%	+4%	+4%	+0%
NORTH YORKSHIRE	5.3 (89)	87%	YES	3%	+3%	+3%	+0%
NORTHAMPTONSHIRE	6.2 (60)	85%	YES	4%	+4%	+4%	+0%
NORTHUMBERLAND	8.2 (8)	84%	YES	6%	+5%	+5%	+0%
NOTTINGHAMSHIRE	6.3 (54)	85%	YES	6%	+4%	+4%	+0%
OXFORDSHIRE	5.9 (75)	85%	YES	36%	+3%	+4%	+2%
POWYS	6.4 (46)	82%	YES	3%	+4%	+3%	+0%
REDBRIDGE	6.3 (51)	83%	YES	9%	+4%	+3%	+0%
RHONDDA CYNON TAF	6.1 (68)	77%	YES	5%	+3%	+3%	+0%
RICHMOND	7.1 (24)	97%	YES	3%	+4%	+5%	-0%
SHROPSHIRE	6.5 (43)	88%	YES	10%	+4%	+4%	+0%
SOMERSET	5.9 (80)	74%	YES	13%	+3%	+3%	+1%
SOUTH YORKSHIRE	6.4 (47)	94%	YES	10%	+4%	+4%	+0%
SOUTH YORKSHIRE PTA	25.2 (1)	114%	NO	100%	+5%	+3%	N/A
SOUTHWARK	7.3 (20)	84%	YES	2%	+4%	+4%	+0%
STAFFORDSHIRE	6.2 (59)	87%	YES	6%	+4%	+4%	+0%
SUFFOLK	6.2 (62)	93%	YES	19%	+4%	+3%	+0%
SURREY	5.9 (81)	86%	YES	5%	+3%	+4%	+0%
SUTTON	6.5 (42)	81%	YES	3%	+4%	+3%	+0%
SWANSEA	6.2 (61)	80%	YES	4%	+4%	+4%	+0%
TEESSIDE	6.8 (29)	103%	YES	13%	+4%	+5%	-0%
TOWER HAMLETS	8.1 (9)	85%	YES	0%	+5%	+5%	+0%
TYNE AND WEAR	7.1 (23)	87%	YES	11%	+4%	+4%	+0%
WALTHAM FOREST	7 (26)	73%	YES	5%	+4%	+4%	+1%



PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
WANDSWORTH	7.7 (12)	104%	YES	1%	+4%	+6%	-0%
WARWICKSHIRE	6.1 (67)	92%	YES	6%	+3%	+4%	+0%
WEST MIDLANDS	6.8 (35)	87%	YES	5%	+4%	+4%	+0%
WEST MIDLANDS ITA	25.1 (2)	100%	NO	100%	+5%	+7%	N/A
WEST SUSSEX	6 (72)	102%	YES	6%	+3%	+5%	-0%
WEST YORKSHIRE	6.5 (44)	94%	YES	13%	+4%	+4%	+0%
WESTMINSTER	10.1 (3)	81%	YES	11%	+6%	+6%	+1%
WILTSHIRE	6.1 (69)	85%	YES	20%	+3%	+4%	+1%
WORCESTERSHIRE	6.3 (57)	83%	YES	8%	+4%	+4%	+0%

Notes:

Funding levels are on the SAB standard basis.

The liability value and salary roll figures in the maturity indicator are as at 31 March 2013.
The liability value was calculated on the standardised market consistent basis.

The following charts provide a graphical representation of the total contribution rates payable after the liability shock and asset shock tests above.



Chart F1: **Liability shock** by fund: Average employer contribution rate as a percentage of payroll after a 10% increase in liabilities, market consistent basis.

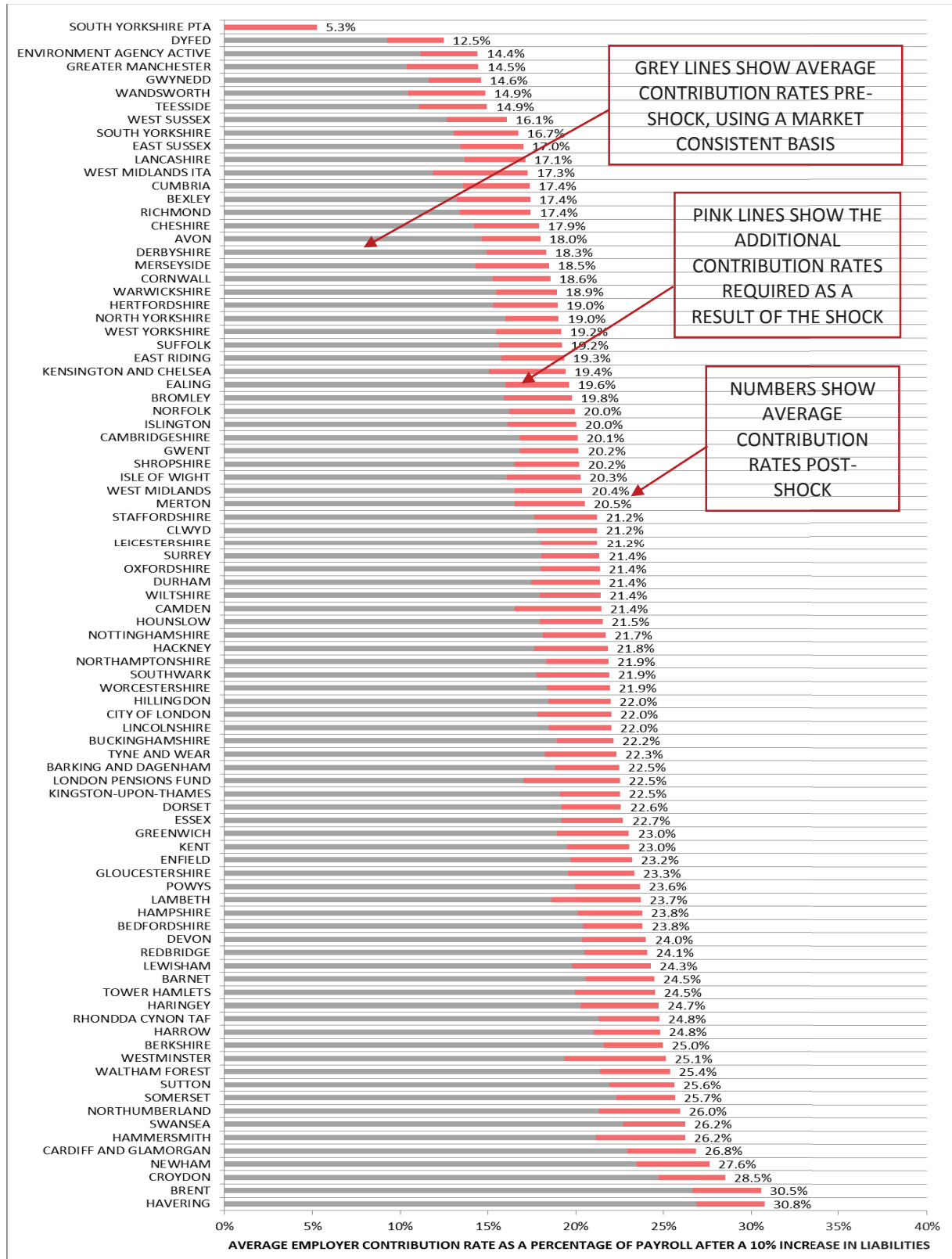
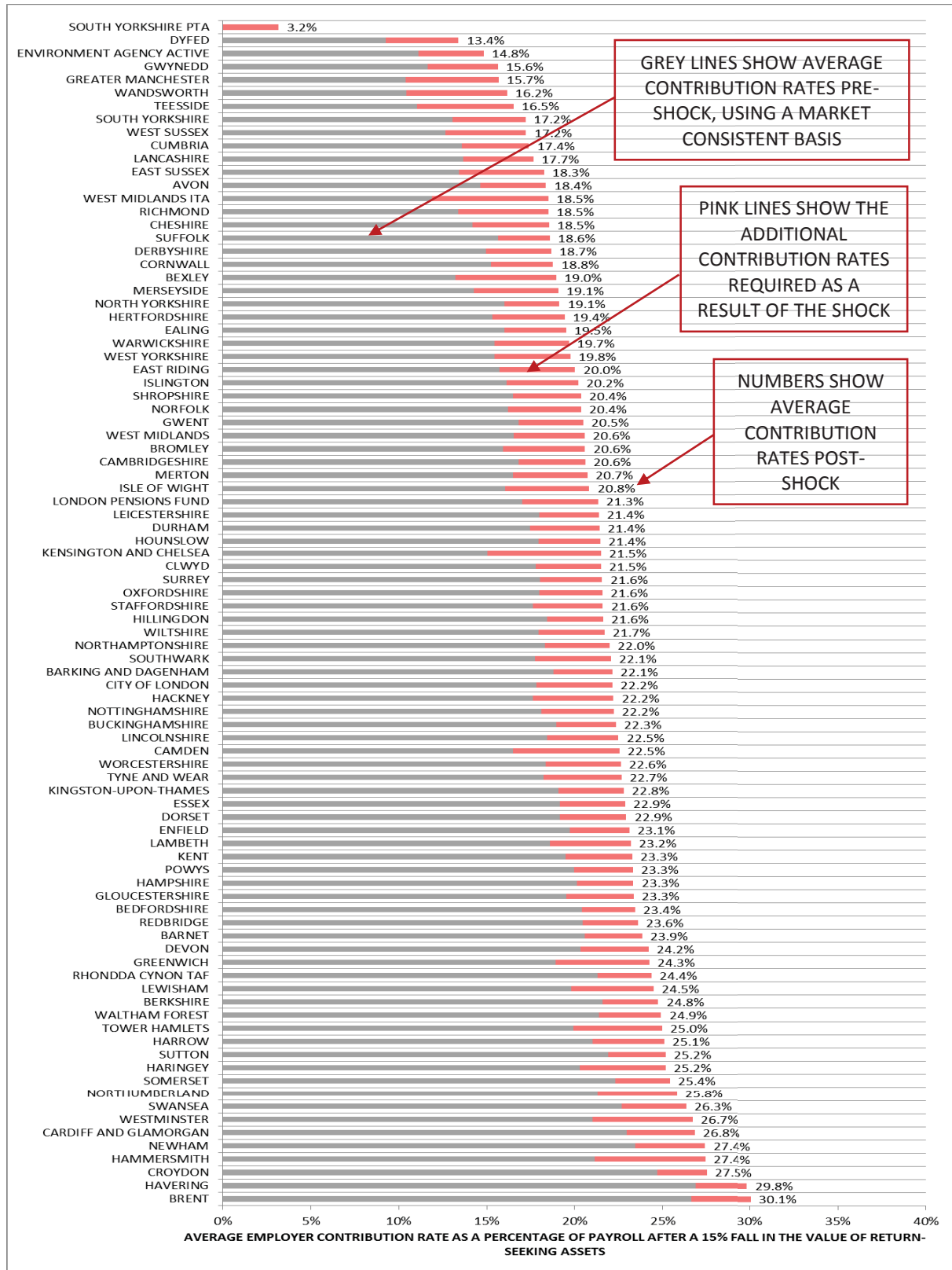




Chart F2: **Asset shock** by fund: Average employer contribution rate as a percentage of payroll after a 15% fall in value of return seeking assets, market consistent basis.





Appendix G: Long term cost efficiency measures – methodology

G.1 This Appendix details the methodology behind the measures used to assess a fund's long-term cost efficiency position. Some of the measures listed below were calculated using a market consistent set of assumptions. For more information on this market consistent basis please see Appendix D.

Deficit repaid: *The proportion of deficit paid off annually, where the deficit is calculated on a standardised market consistent basis*

G.2 This measure is based on SAB key indicator 2(i). However, as the discount rate used in the SAB standard basis is not market-related, each fund's deficit and standard contribution rate on the local fund basis have been restated on a standardised market consistent (MC) basis.

G.3 The proportion of deficit paid off annually was calculated as:

$$\frac{(\text{Avg ER cont rate paid} - \text{ER SCR on MC basis}) \times \text{Pensionable Salary roll}}{\text{Deficit on MC basis}}$$

Where:

- > The average employer contribution rate is for the year 2014/15 allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund, where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll).
- > The employer standard contribution rate on the standardised market consistent basis, is for the year 2014/15. It is assumed that the standard contribution rate is equal to the future cost of accrual of that particular fund.
- > The salary roll is as at 31 March 2013 and has not been adjusted.
- > The deficit on the standardised market consistent basis is as at 31 March 2013.

G.4 The data required for each of the funds to carry out the above calculation was provided by their respective fund actuaries.

G.5 Where appropriate this data has been restated on the standardised market consistent basis.

G.6 Funds that were in surplus or were paying off more than 5% of their deficit annually were flagged as green. Those funds paying off between 0% - 5% of their deficit were flagged as amber and if there were any funds that were actually paying contributions that would result in an increase in deficit, they would have been flagged as red.



Deficit period: The implied deficit recovery period calculated on a standardised market consistent basis

G.7 This measure is based on SAB key indicator 3. However, as the SCAPE discount rate used in the SAB standard basis is not market-related, the calculations are done on a standardised market consistent basis.

G.8 The implied deficit recovery period on the standardised market consistent basis was found by solving the following equation for x:

$$\bar{a}_x = \frac{\text{Deficit on standardised MC basis}}{\text{Annual deficit recovery payment on standardised MC basis}}$$

G.9 Where:

- > x is the implied deficit recovery period.
- > \bar{a}_x is a continuous annuity over x years at the rate of interest equal to $\frac{1+i}{1+e} - 1$.
- > i is the nominal discount rate assumption on the standardised market consistent basis.
- > e is the general earnings inflation assumption on the standardised market consistent basis.
- > The deficit on the standardised market consistent basis is as at 31 March 2013.
- > The annual deficit recovery payment on the standardised market consistent basis is calculated as the difference between the average employer contribution rate for the year 2014/15, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund, where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll), and the employer standard contribution rate on the standardised market consistent basis for the year 2014/15 (which is assumed to be equal to the future cost of accrual of that particular fund).

G.10 Funds that were in surplus or where the implied deficit recovery period was less than 20 years were flagged as green. Those with recovery periods greater than 20 years were flagged as amber. If there were any funds that were paying contributions as a level that would result in an increase in deficit, they would have been flagged as red.

Required return: The required investment return rates to achieve full funding in 20 years' time on the standardised market consistent basis

G.11 This measure is based on SAB key indicator 4(i). However, as the SCAPE discount rate used in the SAB standard basis is not market-related, the calculations are done on a standardised market consistent basis.



G.12 The following assumptions were made for the purposes of this calculations:

- > Time 0 is 31 March 2013.
- > Time 20 is 31 March 2033.
- > A_0 is the value of the fund's assets at time 0, and was obtained from the data provided by the local fund actuaries.
- > A_{20} is the value of the fund's assets at time 20.
- > L_0 is the value of the fund's liabilities at time 0, and was obtained from the data provided by the local fund actuaries.
- > L_{20} is the value of the fund's liabilities at time 20.
- > C_0 is one year's employer contributions paid from time 0. (DCLG's SF3 statistics for the year 2014/15 were used for this purpose).
- > C_{0-20} is the total employer contributions payable over the period time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10).
- > B_0 is the value of one year's benefits paid (excluding transfers) from time 0. (DCLG's SF3 statistics for the year 2014/15 were used for this purpose).
- > B_{0-20} is the total value of benefits payable (excluding transfers) over the period time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10).
- > SCR_0 is the standard contribution rate payable from time 0 to time 1 and was calculated by restating the standard contribution rates on the local fund bases using the market consistent basis.
- > SCR_{0-20} is the standard contribution rate payable from time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10).
- > Sal_0 is the salary roll at time 0 and was obtained from the data provided by the local fund actuaries.
- > i is the nominal discount rate assumption on the standardised market consistent basis.
- > e is the general earnings assumption on the standardised market consistent basis.
- > x is the required investment return that is to be calculated.

G.13 The membership profile is assumed to be constant.

G.14 The assets and liabilities at time 20 were then equated and the resulting quadratic equation solved to find the required rate of investment return to achieve full funding, i.e.:

$$A_{20} - L_{20} = 0$$



Where:

- > $A_{20} = [A_0 \times (1 + x)^{20}] + [(C_{0-20} - B_{0-20}) \times (1 + x)^{10}]$
- > $L_{20} = [L_0 \times (1 + i)^{20}] + [(SCR_{0-20} - B_{0-20}) \times (1 + i)^{10}]$
- > $C_{0-20} = C_0 \times 20 \times (1 + e)^{10}$
- > $B_{0-20} = B_0 \times 20 \times (1 + e)^{10}$
- > $SCR_{0-20} = Sal_0 \times SCR_0 \times 20 \times (1 + e)^{10}$

- G.15 Given the assumptions and simplifications made in the above calculations, the use of the contribution income and benefit payments from the 2014/15 SF3 data is not likely to have a material impact on the results.
- G.16 Funds where the required investment return was higher than the nominal discount rate on the standardised market consistent basis (i.e. i where $i = 5.92\%$) were classified as amber, whereas funds were classified as green if the required return was less than i .

Repayment shortfall: *The difference between the actual deficit recovery contribution rate and the annual deficit recovery contributions required as a percentage of payroll to pay off deficit in 20 years, where the deficit is calculated on a standardised market consistent basis*

- G.17 This measure extends the deficit period measure. We calculate the required annual deficit recovery contribution rate on a standardised market consistent basis to pay off the deficit in 20 years' time, and then work out the difference between the actual deficit recovery contribution rate and this rate.
- G.18 The 20 year deficit recovery period is based on the SAB key indicator 4(i).
- G.19 The required annual deficit recovery contribution rate to be paid on a standardised market consistent basis is equal to:

$$\frac{\text{Deficit on standardised market consistent basis}}{\bar{a}_{20} \times \text{Salary roll}}$$

Where:

- > The deficit on the standardised market consistent basis is as at 31 March 2013.
- > \bar{a}_{20} is a continuous annuity over the 20 year deficit recovery period at the rate of interest equal to $\frac{1+i}{1+e} - 1$.
- > i is the nominal discount rate assumption on the standardised market consistent basis.



- > e is the general earnings inflation assumption on the standardised market consistent basis.
- > The salary roll is as at 31 March 2013 and has not been adjusted.

G.20 The difference in deficit recovery contribution rates is then defined as:

$$(Avg\ ER\ cont\ rate\ paid - ER\ SCR\ on\ MC\ basis) - \frac{Deficit\ on\ MC\ basis}{\bar{a}_{20} \times Salary\ roll}$$

Where:

- > The average employer contribution rate is for the year 2014/15, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund where deficit contributions are fixed ((i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll).
- > The employer standard contribution rate on the standardised market consistent basis is for the year 2014/15. It is assumed that the standard contribution rate is equal to the future cost of accrual of that particular fund.

G.21 The data required for each of the funds to carry out the above calculation was provided by their respective fund actuaries.

G.22 Where appropriate these data has been restated on the standardised market consistent basis.

G.23 Funds where the difference in deficit recovery contribution rates is greater than 0% are flagged as green. Where the difference between contribution rates is between 0% and -3%, the funds are flagged as amber. If the difference in deficit recovery contribution rates is less than -3%, then the fund is flagged as red.

Repayment pace: *The amount of deficit paid off over each future valuation period, as a proportion of the deficit disclosed at the last valuation, and the number of years required to pay off 50% of the value of the original deficit, where the deficit calculations are carried out on a standardised market consistent basis*

G.24 The data required to calculate this measure was not available during this dry run. However, we expect this calculations to be included as part of the Section 13 report following the 2016 valuations.

G.25 This first part of this measure is similar to deficit repaid, whilst the second part of this measure is similar to deficit period. Both calculations will need to be carried out on the standardised market consistent basis.

G.26 Part one requires funds to set out what proportion of the deficit they intend to pay off in each of the future valuation periods. Part two requires funds to set out the point in time when they would pay off 50% of the value of the original deficit.



Return scope: *The required investment return rates as calculated in required return, compared with the fund's expected best estimate future returns assuming current asset mix maintained*

- G.27 This measure is based on SAB key indicator 4(ii).
- G.28 The required investment return (x) calculated in the required return measure was compared against the best estimate investment return expected from the fund's assets held on 31 March 2013.
- G.29 The asset data used in this calculation was provided by each fund's respective fund actuary.
- G.30 Funds where the best estimate future returns were higher than the required investment return by 0.5% or more were flagged as green. Those funds where this difference was between 0% and 0.5% were flagged as amber, whilst those where the best estimate returns were lower than the required investment returns were flagged as red.

Deficit extension: *The change in each fund's reported deficit recovery period from the 2010 valuation to the 2013 valuation*

- G.31 This measure compares the deficit recovery periods as at 31 March 2010 and 31 March 2013, using the data provided by each fund's actuary.
- G.32 Funds where the deficit recovery period had increased by more than 6 years were flagged as red, where the deficit recovery period had increased by less than 6 years were flagged as amber and where there was no change or the deficit recovery period was shorter in 2013 were flagged as green.

Interest cover: *A check on whether the annual deficit recovery contributions paid by the fund are sufficient to cover the annual interest payable on that deficit, where the deficit is calculated on a standardised market consistent basis*

- G.33 This measure was triggered if the following inequality did not hold true:

$$(Avg\ ER\ cont\ rate\ paid - ER\ SCR\ on\ MC\ basis) \times Sal\ roll > Deficit\ on\ MC\ basis \times i$$

Where:

- > The average employer contribution rate is for the year 2014/15, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll).



- > The employer standard contribution rate on the standardised market consistent basis is for the year 2014/15. It is assumed that the standard contribution rate is equal to the future cost of accrual of that particular fund.
- > The salary roll is as at 31 March 2013 and has not been adjusted.
- > The deficit on the standardised market consistent basis is as at 31 March 2013.
- > i is the nominal interest rate assumption on the standardised market consistent basis.

- G.34 The data required for each of the funds to carry out the above calculation was provided by their respective fund actuaries.
- G.35 Where appropriate these data have been restated on the standardised market consistent basis.
- G.36 Funds that paid sufficient annual deficit recovery contributions to cover the annual interest payable on the deficit were flagged as green, whilst those that did not were flagged as red.

Deficit reconciliation: Confirmation that the deficit period can be demonstrated to be a continuation of the previous deficit recovery plan, after allowing for actual fund experience

- G.37 The data required to calculate this measure were not available during this dry run. However, we expect this calculations to be included as part of the Section 13 report following the 2016 valuations.
- G.38 This measure will be used to monitor the change in the length of the deficit recovery period set locally by the fund at each valuation and what the underlying reasons are for any adverse changes in this period.
- G.39 For example, if a fund's deficit recovery period has increased from the value calculated in the previous valuation, was this due to the fund not paying sufficient deficit recovery contributions over the inter-valuation period, or was this due unfavourable demographic experience, such as increasing longevity.

Surplus retention: Confirmation that contributions from funds not in deficit are not likely to lead to a deficit arising in the future.

- G.40 Note that all the funds that were in surplus on the market consistent basis were paying sufficient contributions to cover ongoing accrual of benefits on that basis.
- G.41 This measure has therefore been excluded from our tables of long term cost efficiency measures for the purposes of the LGPS England and Wales Section 13 Dry Run Report as no funds triggered an amber or red flag.



G.42 This measure looks at the funding level of the funds that were in surplus on the standardised market consistent basis.

G.43 The fund would be need to pay sufficient contributions after allowing for future costs of accrual, such that:

$$\text{Avg ER cont rate paid} - \text{ER SCR on MC basis} > 0$$

Where:

- > The average employer contribution rate is for the year 2014/15, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll).
- > The employer standard contribution rate on the standardised market consistent basis is for the year 2014/15. It is assumed that the standard contribution rate is equal to the future cost of accrual of that particular fund.

G.44 The data required for each of the funds to carry out the above calculation were provided by their respective fund actuaries.

G.45 Where appropriate these data have been restated on the standardised market consistent basis.



Appendix H: Long term cost efficiency measures – by fund

Table H1: Long term cost efficiency measures by fund

PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
AVON	5.9 (82)	>50%	1	2%	16%	4.3%	-3	Yes
BARKING AND DAGENHAM	6.5 (45)	18%	6	3%	9%	2.5%	0	Yes
BARNET	6.8 (31)	15%	7	3%	9%	2.2%	0	Yes
BEDFORDSHIRE	5.9 (76)	11%	9	4%	6%	1.8%	0	Yes
BERKSHIRE	5.9 (78)	4%	34	6%	-2%	-0.5%	-3	No
BEXLEY	7.4 (14)	IN SURPLUS	IN SURPLUS	4%	7%	2.5%	0	Yes
BRENT	6.9 (28)	9%	12	4%	6%	2.3%	-3	Yes
BROMLEY	6.8 (33)	>50%	2	3%	13%	3.1%	3	Yes
BUCKINGHAMSHIRE	5.6 (87)	8%	13	5%	2%	1.2%	-3	Yes
CAMBRIDGESHIRE	5.8 (83)	18%	6	4%	5%	2.1%	0	Yes
CAMDEN	8.6 (7)	43%	2	3%	14%	3.2%	0	Yes
CARDIFF AND GLAMORGAN	6.8 (32)	9%	13	5%	3%	0.9%	-2	Yes
CHESHIRE	6.5 (41)	>50%	0	2%	14%	3.9%	0	Yes
CITY OF LONDON	7.3 (18)	7%	15	5%	1%	0.8%	0	Yes
CLWYD	6 (73)	17%	6	3%	8%	2.7%	-2	Yes
CORNWALL	5.8 (84)	>50%	2	3%	9%	2.4%	0	Yes
CROYDON	6.7 (37)	8%	14	5%	3%	1.2%	-2	Yes
CUMBRIA	6.7 (38)	>50%	0	2%	19%	3.7%	-3	Yes
DERBYSHIRE	5.9 (77)	>50%	0	4%	7%	1.7%	0	Yes
DEVON	6.4 (48)	7%	15	5%	2%	0.6%	-5	Yes
DORSET	6 (74)	8%	15	5%	1%	0.8%	0	Yes
DURHAM	6.9 (27)	16%	6	4%	7%	1.5%	-1	Yes
DYFED	5.6 (88)	IN SURPLUS	IN SURPLUS	3%	7%	3.0%	0	Yes
EALING	6.3 (53)	20%	5	4%	8%	2.0%	-3	Yes
EAST RIDING	6.3 (55)	>50%	2	3%	10%	2.6%	0	Yes



PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
EAST SUSSEX	6.3 (52)	IN SURPLUS	IN SURPLUS	3%	9%	3.2%	0	Yes
ENFIELD	6.1 (66)	12%	9	5%	4%	0.7%	0	Yes
ENVIRONMENT AGENCY ACTIVE	5.8 (85)	IN SURPLUS	IN SURPLUS	N/A	N/A	N/A	3	N/A
ESSEX	6.2 (65)	14%	8	4%	6%	2.1%	0	Yes
GLOUCESTERSHIRE	6.7 (36)	19%	6	3%	10%	2.9%	0	Yes
GREATER MANCHESTER	7.2 (22)	IN SURPLUS	IN SURPLUS	2%	8%	3.7%	0	Yes
GREENWICH	7.2 (21)	8%	13	5%	2%	1.2%	0	Yes
GWENT	5.9 (79)	13%	8	5%	5%	1.5%	5	Yes
GWYNEDD	5.2 (90)	IN SURPLUS	IN SURPLUS	2%	10%	3.8%	0	Yes
HACKNEY	7.4 (15)	40%	3	1%	19%	5.4%	-2	Yes
HAMMERSMITH	8.9 (6)	9%	12	5%	4%	1.0%	-3	Yes
HAMPSHIRE	6.4 (50)	9%	12	5%	3%	0.6%	-3	Yes
HARINGEY	7.8 (11)	14%	7	4%	7%	1.8%	0	Yes
HARROW	6.6 (39)	9%	12	5%	3%	1.0%	0	Yes
HAVERING	6.8 (34)	8%	14	4%	3%	1.4%	0	Yes
HERTFORDSHIRE	6.4 (49)	>50%	1	3%	11%	2.9%	0	Yes
HILLINGDON	6.2 (64)	12%	9	4%	4%	1.3%	0	Yes
HOUNSLOW	6.3 (58)	12%	9	5%	5%	1.1%	0	Yes
ISLE OF WIGHT	7.4 (16)	>50%	2	4%	9%	2.4%	0	Yes
ISLINGTON	6.8 (30)	18%	6	4%	8%	1.8%	-3	Yes
KENSINGTON AND CHELSEA	7.7 (13)	IN SURPLUS	IN SURPLUS	4%	7%	2.1%	-3	Yes
KENT	6.2 (63)	11%	10	5%	5%	1.5%	0	Yes
KINGSTON-UPON-THAMES	6.1 (71)	19%	5	3%	8%	3.0%	0	Yes
LAMBETH	8.9 (5)	30%	3	2%	17%	3.6%	0	Yes
LANCASHIRE	6.1 (70)	>50%	2	4%	10%	1.9%	0	Yes
LEICESTERSHIRE	5.7 (86)	13%	8	5%	4%	1.5%	0	Yes
LEWISHAM	7.8 (10)	11%	9	5%	4%	1.3%	0	Yes
LINCOLNSHIRE	6.3 (56)	14%	8	4%	5%	1.9%	0	Yes



PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
LONDON PENSIONS FUND	9.6 (4)	48%	2	2%	20%	4.0%	-3	Yes
MERSEYSIDE	7.3 (17)	>50%	1	1%	24%	4.9%	-3	Yes
MERTON	7.1 (25)	>50%	1	1%	20%	5.2%	-3	Yes
NEWHAM	7.3 (19)	10%	11	4%	6%	2.1%	0	Yes
NORFOLK	6.6 (40)	33%	3	4%	9%	2.4%	0	Yes
NORTH YORKSHIRE	5.3 (89)	27%	4	3%	10%	2.6%	-3	Yes
NORTHAMPTONSHIRE	6.2 (60)	20%	5	4%	9%	2.4%	0	Yes
NORTHUMBERLAND	8.2 (8)	14%	8	4%	7%	1.4%	-3	Yes
NOTTINGHAMSHIRE	6.3 (54)	10%	10	5%	3%	1.2%	0	Yes
OXFORDSHIRE	5.9 (75)	12%	9	4%	4%	1.5%	0	Yes
POWYS	6.4 (46)	12%	9	4%	6%	1.3%	0	Yes
REDBRIDGE	6.3 (51)	13%	8	4%	5%	1.5%	0	Yes
RHONDDA CYNON TAF	6.1 (68)	11%	10	5%	6%	1.3%	0	Yes
RICHMOND	7.1 (24)	IN SURPLUS	IN SURPLUS	3%	13%	3.1%	0	Yes
SHROPSHIRE	6.5 (43)	17%	6	4%	6%	1.6%	0	Yes
SOMERSET	5.9 (80)	5%	24	6%	-1%	0.0%	0	No
SOUTH YORKSHIRE	6.4 (47)	>50%	1	2%	17%	3.7%	-3	Yes
SOUTH YORKSHIRE PTA	25.2 (1)	IN SURPLUS	IN SURPLUS	N/A	11%	N/A	N/A	Yes
SOUTHWARK	7.3 (20)	17%	6	4%	7%	2.0%	-3	Yes
STAFFORDSHIRE	6.2 (59)	23%	5	4%	9%	2.4%	5	Yes
SUFFOLK	6.2 (62)	>50%	1	2%	13%	2.9%	0	Yes
SURREY	5.9 (81)	22%	5	3%	9%	3.0%	0	Yes
SUTTON	6.5 (42)	11%	10	4%	5%	1.4%	0	Yes
SWANSEA	6.2 (61)	10%	10	4%	4%	1.6%	0	Yes
TEESSIDE	6.8 (29)	IN SURPLUS	IN SURPLUS	5%	3%	1.3%	-3	Yes
TOWER HAMLETS	8.1 (9)	22%	5	3%	11%	3.4%	0	Yes
TYNE AND WEAR	7.1 (23)	22%	5	4%	10%	2.2%	0	Yes
WALTHAM FOREST	7 (26)	11%	9	3%	10%	2.4%	0	Yes



PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
WANDSWORTH	7.7 (12)	IN SURPLUS	IN SURPLUS	4%	9%	2.3%	-3	Yes
WARWICKSHIRE	6.1 (67)	40%	3	4%	7%	2.4%	0	Yes
WEST MIDLANDS	6.8 (35)	19%	6	4%	8%	2.0%	-3	Yes
WEST MIDLANDS ITA	25.1 (2)	IN SURPLUS	IN SURPLUS	N/A	45%	N/A	N/A	Yes
WEST SUSSEX	6 (72)	IN SURPLUS	IN SURPLUS	3%	9%	2.9%	0	Yes
WEST YORKSHIRE	6.5 (44)	44%	2	5%	2%	0.7%	0	Yes
WESTMINSTER	10.1 (3)	8%	15	5%	3%	0.9%	-5	Yes
WILTSHIRE	6.1 (69)	17%	6	4%	6%	2.1%	0	Yes
WORCESTERSHIRE	6.3 (57)	14%	7	4%	7%	2.0%	2	Yes

Notes:

The liability value and salary roll figures in the maturity indicator are as at 31 March 2013. The liability value was calculated on the standardised market consistent basis.

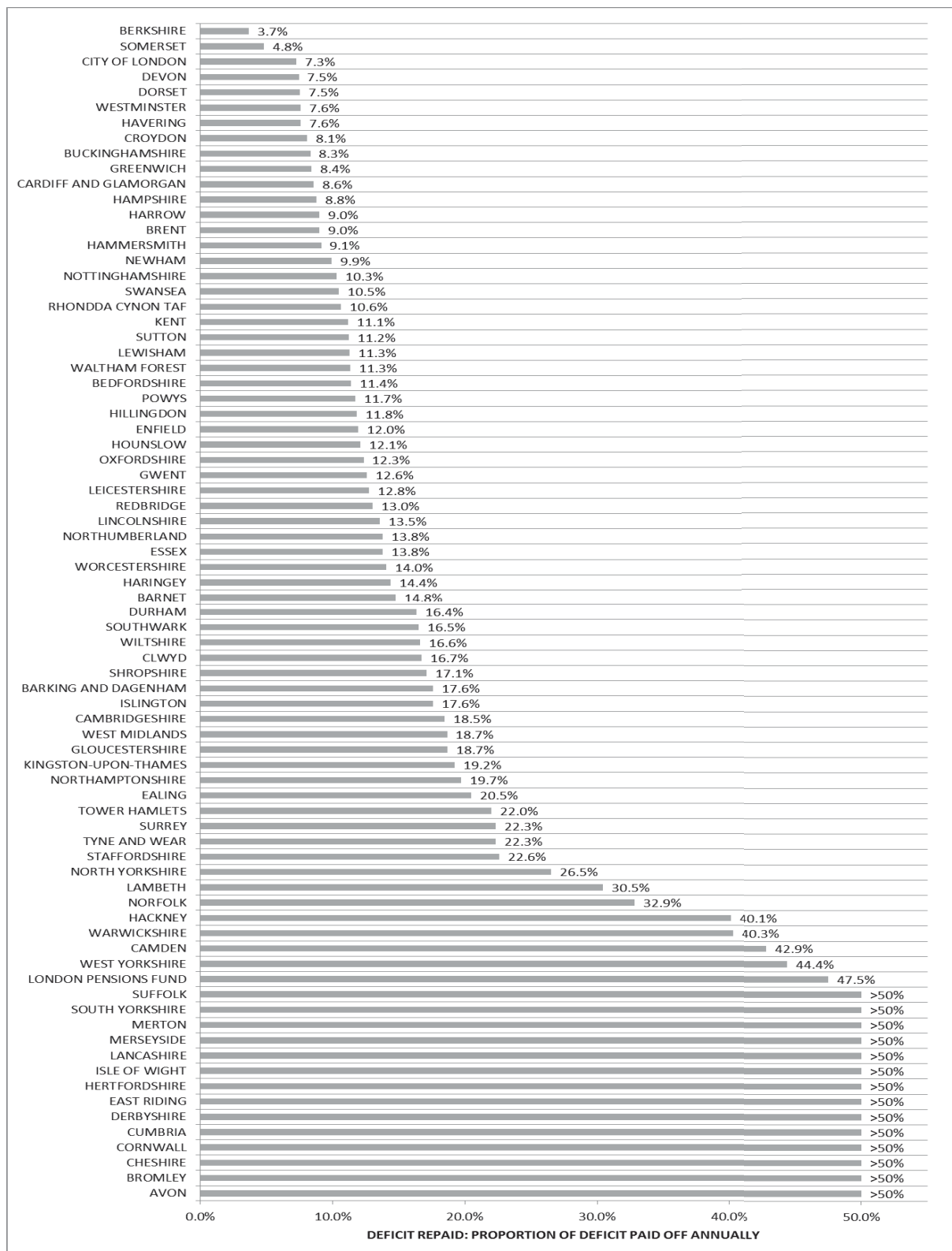
The 'Required Return' and 'Return Scope' measures were not calculated for South Yorkshire PTA and West Midlands ITA as these are closed funds. They were also not calculated for the Environment Agency Open fund as the DCLG SF3 statistics did not contain data for the fund.

The 'Deficit Extension' measure was not calculated for South Yorkshire PTA and West Midlands ITA as information on deficit recovery periods was not available.

The following charts provide a graphical representation of the 'Deficit Repaid' and 'Required Return' measures.



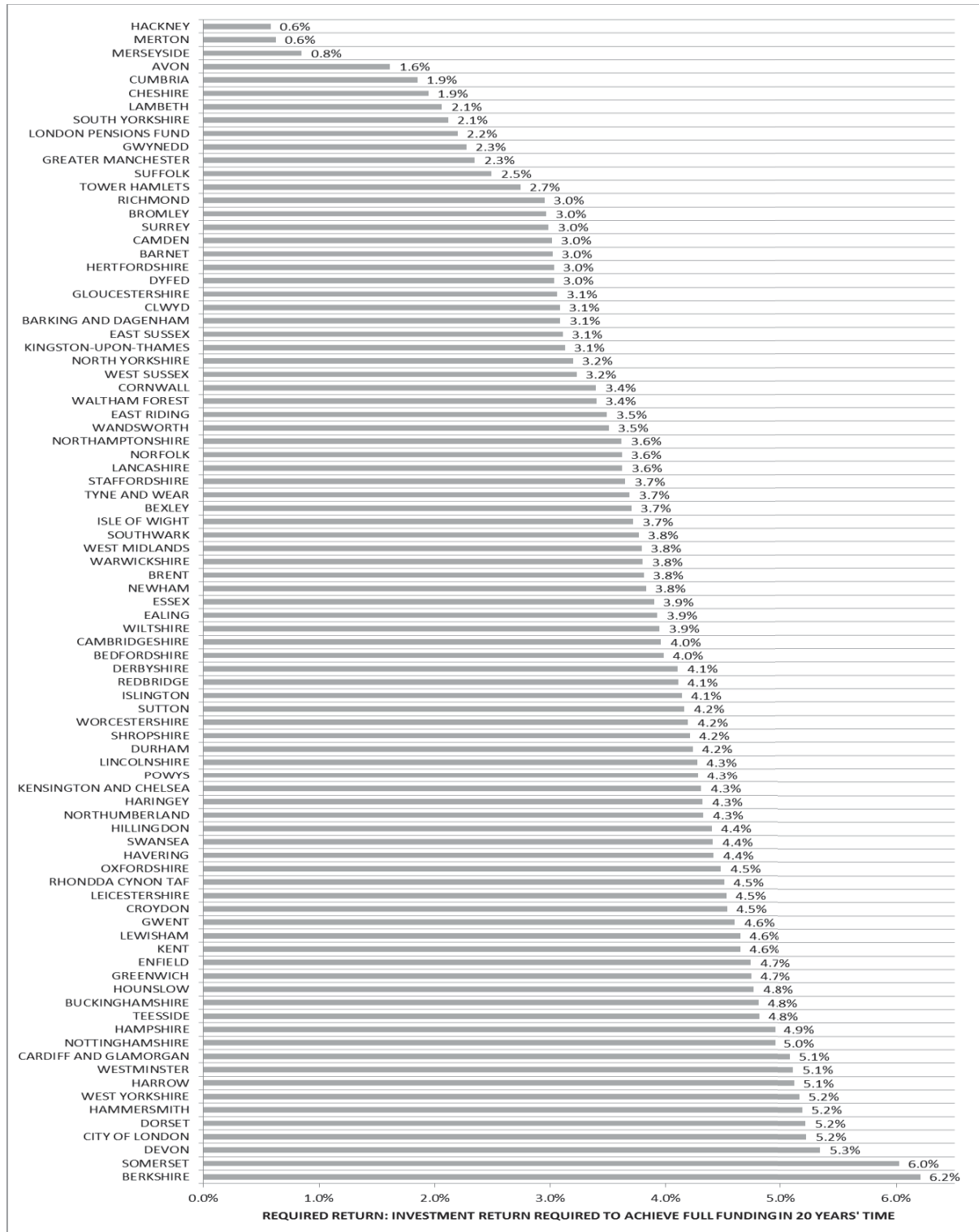
Chart H1: **Deficit Repaid** by fund: The proportion of deficit paid off annually.



Note: Funds in surplus have been excluded.




Chart H2: **Required Return by fund:** The investment return required to achieve full funding in 20 years' time.



Note: Neither closed funds nor the Environment Agency Active fund were assessed under this measure.

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 Brent	<p style="text-align: center;">Pension Board 13 December 2016</p> <p style="text-align: center;">Report from the Chief Finance Officer</p>
<p>For Information Purposes Wards affected: ALL</p>	
<p style="text-align: center;">New Regulatory Oversight for LGPS Pension Schemes</p>	

1.0 Introduction

1.1 Recent changes brought about by the Public Services Pension Act 2013 (“The Act”) have changed the regulatory framework of the LGPS Pensions Scheme. In particular, Section 13 of The Act introduces additional measures by which the activity of LGPS Schemes is overseen by Central Government, that has in turn appointed GAD (Government Actuary Department) to be the “appointed person” to deliver that function.

2.0 Recommendations

2.1 To note this report.

2.2 Note that the Pension Fund will need to comply with the section 13 process, responding to all queries and requirements of Government’s Actuary Department (GAD).

2.3 Note that results on the review by GAD will come back to this Committee when GAD has completed its report (early 2018)

3.0 Details

- 3.1 Both the Chair of the Pensions Board and the Head of Finance went to a conference in September 2016 on the impact of Section 13. Due to the complexity of the subject matter, this briefing note was produced. It is also important to understand Brent's Pension Fund specific position in this, especially as scrutiny of the LGPS is now built in to Central Government regulations.
- 3.2 The Section 13 process was set up following the introduction of the Public Service Pensions Act 2013 ("the Act"). Section 13 of the Act sets out a new review framework that sits over the LGPS pensions across England and Wales. The legislation requires the Government Actuary's Department (GAD), as the 'appointed person' to report on whether the LGPS funding valuations comply with four criteria: Compliance, Consistency, Solvency & Long-Term Cost Efficiency. Section 13 is a review mechanism to ensure that all the valuations use appropriate assumptions but the power will still sit locally to determine appropriate contribution rates that reflect local circumstances, as 'no one size fits all'.
- 3.3 Section 13 of the Act has been a long drawn-out process with negotiations between the various stakeholders (GAD, Treasury, the actuarial companies and CIPFA, and LGA have represented Councils to date). A dry-run process reviewing funding valuation methodologies and results took place using 2013 data to determine where problems actually lay as opposed to where Government thought they did. GAD has tried to use standardised calculations to see where there were outliers. It allowed them to pick out funds at greater risk.
- 3.4 It is important to note that the dry run was not statutory but the one reviewing the current 2016 Triennial Review process will be and the results should be made public in early 2018. The main purpose of the dry run is to highlight risks and get feedback so that the statutory one will be fit for purpose.
- 3.5 Gradually, it has become clear due to the better quality of data from the dry run that many of the earlier potential recommendations revolving around

tougher oversight measures have become unnecessary because the LGPS has largely been well-managed.

- 3.6 The Act explicitly gives power to the Government to force changes if necessary and both GAD and the actuarial firms have found the concept of 'Actuarial Override' problematic, as it represents a challenge to an industry that places great weight upon profession opinion. Therefore, there is a clear incentive to ensure that all actuarial assumptions and methodologies occupy a shared space of reasonableness. As far as GAD were concerned, the Act's reference to remedial measures highlighted the importance of early informal discussions with Government. However, CLG may require the authority to report on progress and/or direct scheme manager to take remedial steps. These remedial steps potentially could range from providing additional clarity on matters to an increase in contributions with immediate effect.
- 3.7 **Compliance:** Are the valuations carried out in-line with regulations? This has genuinely not turned out to be a problem, as local government tends to be thorough at ensuring that they are compliant with laws and regulations.
- 3.8 **Consistency:** Are the valuations carried out in a consistent manner with each other? This posed a problem as the dry run exposed that inconsistencies were not always justified by local differences. Also, there were significant presentational and evidential ones but this tended to be a comment on the various actuarial companies' approaches rather than between funds, in general. It was interesting to note that the actuarial firms had significantly different estimates of funding levels dependent on the firm. Brent's still remained the lowest funding level but because GAD does not try to take a very prudent perspective, the level as calculated by GAD was significantly higher.
- 3.9 The Common Contribution Rate (CCR) was calculated differently between the actuarial firms, as were many of the other Pension measures. Even though the CCR has now been replaced by clearer (albeit still not explicit) definitions of primary and second rates of contributions, GAD decided that it needed to

produce its own standardised indicators so it could compare, contrast and undertake meaningful analyses.

- 3.10- GAD felt it important to state that their indicators are about transparency and not about minimum funding requirement or a race to the bottom. It is not clear that the actuarial firms fully agree with this statement. These indicators did not take into local circumstances, such as guarantees, and highlighted the differences in assumptions and approaches between the valuation firms.
- 3.11 **Solvency:** Are the contributions sufficient to ensure the funds remained solvent? There were 10 measures in GAD's assessment to assess solvency and the report made a clear decision to target 100% funding regardless. Overall, the outcomes were very positive for most LGPS funds. Brent did not throw up any red flags, bar the known funding level issue. GAD expected that contributions will vary over time, especially for closed funds. They were also looking for plans such as asset liability matching or guarantees.
- 3.12 **Long-Term Cost Efficiency:** Are the Contributions enough to meet future demands on the Pension Fund and close the existing deficit? The important aspect of this was there was clear evidence of not deferring cost, i.e. sufficient contribution rates. Brent's contribution levels were consistent with an approach that would on the balance of things be likely to close its deficit, as long as its assumptions were realistic. However, GAD could not take the position that Brent was fine because the future is unknowable and the funding level is so low. However, its analysis did not cause any specific worries around having 'heroic' assumptions, as a few funds did.

Other Issues

- 3.13 Despite it being a dry run, challenges around data quality did not prevent some useful analysis, such as identifying those funds that may need to do greater risk modelling, review assumptions and/or contribution strategies. GAD also pointed out that it was important to take into account a basket of measures. However, getting the correct data specifications and having the appropriate data indicators are exceedingly important. Some of the measures seemed redundant or duplicative. Furthermore, a general critique from local

government was that using one year's worth of contributions rather than three was flawed because different years in the three year cycle might have very different contribution rates depending on the local strategy.

- 3.14 There was clear concern from many of the Pension Fund leads around the GAD's direction of travel into looking into investment decisions versus the original focus upon calculation of liabilities and funding strategies. It was not clear that GAD had the skills to undertake this and there were worries that the investigation into asset-liability matching was outside the remit of the regulations.

Conclusions

- 3.15 Overall, Section 13 was well received as a positive piece of analysis by the main stakeholders but there were still concerns as noted above about content and certainly around messaging.
- 3.16 Brent Pension Fund was clearly flagged up as having a low overall funding level, but it was not one of those that exercised GAD. The main worry expressed was regarding those Councils with apparently low contribution rates combined with low funding levels.
- 3.17 However, Brent Pension Fund should not view this analysis as a sign that everything is acceptable: the 2016 statutory review is still to take place and the need to be prudent and have an appropriate funding strategy with such a large deficit still remains a challenge.

4.0 Financial Implications

- 4.1 There are no direct financial implications from this report. However, it is important that results from the statutory report that should be finished by the end of 2017 has the potential to override the Pension Fund contribution rates if they are deemed too low. The Funding strategy in the original analysis conducted was consistent with an approach that should within an appropriate amount of time reduce the deficit to zero, according to GAD's analysis. However, any new analysis might potentially produce different results.

5.0 Legal Implications

5.1 Section 13 of the Act provides for the setting of the rate of employer contributions in defined benefits schemes with a pension fund, most notably the funded Local Government Pension Scheme (LGPS). This section requires an actuarial valuation of the pension fund to inform the setting of the employer contribution rate. The valuation of the pension fund is separate from and in addition to the valuation of the whole LGPS scheme under section 11 of the Act. Section 13 provides for an independent review of the valuation and employer contribution rates to check that they are appropriate and requires remedial action to be taken where that review identifies a problem.


6.0 Diversity Implications

6.1 Not Applicable

Contact Officers

Persons wishing to discuss the above should contact Gareth Robinson, Head of Finance, on 020 8937 6567, Gareth.Robinson at Brent Civic Centre

CONRAD HALL
Chief Finance Officer

 Brent	<p style="text-align: center;">Pension Board 13 December 2016</p> <p style="text-align: center;">Report from the Chief Finance Officer</p>
<p>For Information Purposes Wards affected: ALL</p>	
<p>Triennial Review</p>	

1.0 Summary

- 1.1 The purpose of this report is to bring a key Pensions Fund Sub-Committee report on the Triennial Review to the Pensions Board for notification purposes alone.

2.0 Recommendations

- 2.1 To note the report on the Triennial Review process.

3.0 Detail

- 3.1 Detail is kept within the appendix.

4.0 Financial Implications

- 4.1 There are no direct financial implications.

5.0 Legal Implications

- 5.1 There are no direct legal implications.

6.0 Diversity Implications

- 6.1 Not Applicable

7.0 Staffing/Accommodation Implications (if appropriate)

7.1 Not Applicable

Background Papers

Pension Fund Sub-Committee Report November 8th

Contact Officers

Persons wishing to discuss the above should contact Gareth Robinson, Investment and Pensions Section, Finance, on 020 8937 6567, gareth.robinson@brent.gov.uk at Brent Civic Centre



Pensions Fund Sub-Committee
8 November 2016

**Report from the Chief Finance
Officer**

For Decision-Making

Wards affected:
ALL

Triennial Review

1. Introduction

1.1 This paper updates members on the progress in the Triennial Review, informs them about the next stages. It also requests that members approve the draft FSS (Funding Strategy Statement) for consultation and that members delegate to officers to fine-tune items within the FSS with regard to the individual employers. The paper also requests that members delegate the decision on the Council contribution rate once the Monte Carlo modelling is complete.

2. Recommendations

2.1 Note the update on the Triennial Review process

2.2 Note the results of the Triennial Valuation – whole fund results.

2.3 Agree the Current Draft of the Funding Strategy Statement (FSS) within the Restricted section.

2.4 Agree to delegate to Council Officers the completion of certain detailed elements with the Fund Actuary, when employer-level calculations become available.

- 2.5 Note that the FSS will be consulted with employers as required by LGPS Regulations.
- 2.6 Note that this FSS will come back to this Committee for formal ratification after consultation has ended.
- 2.7 Agree to delegate to the Chief Finance Officer the decision on Council contribution rate with the Fund Actuary using this modelling and the principles of the FSS.

Details

- 3.1 The Triennial Review ends with the setting of the contribution rates of the various employers for the period 2017/18 through 2019/20. Its key document is the Funding Strategy Statement that sets out the Pension Fund's strategy to achieve an appropriate funding level and manage risk appropriately.
- 3.2 The production of Whole Fund results that identifies the Pension Fund's overall funding level has been delayed by various data quality problems. There have been particular problems with data quality in smaller admitted bodies. A post-mortem will be carried out and this will be reviewed by the Pensions Board in early 2017 to ensure lessons are learned.
- 3.3 The Whole Fund results look at the overall funding level. Various employers will have different funding levels based on contribution rates in the past. Some will also have very different levels of risks, such as smaller bodies with no guarantee are a high risk whereas academies are guaranteed in effect by the Department of Education. Brent Council, as by far the largest element in the Fund has a funding level broadly consistent with the overall fund.
- 3.4 The Funding Strategy Statement is necessary because employee benefits are guaranteed by LGPS regulation. The FSS includes the time-frame through which the Pension Fund will expected to become fully-funded by the various type of employers and expectations around guarantees. The statement further explains how the Pension Fund measures its liabilities, its approach to affording to pay for them and how it complies with regulatory requirements.

- 3.5 The next stage would be model the individual employer results. Data issues should not affect the production of this process for Brent Council but it may affect some of the smaller bodies within the Fund, as data quality issues on a few members may distort any modelling.
- 3.6 Hymans Robertson used an advanced Monte Carlo Modelling tool called ComPASS. The Monte Carlo method uses repeated random sampling to generate numerical results. The method sets funding objectives (e.g. 75% chance of being fully funded within 19 years) subject to various criteria. It then predicts future funding levels based on the current investment strategy and 10,000 future possible outcomes. The employer selects various possible contribution strategies in order to understand the range of options and impacts of various decisions. The goal is to balance affordability, likelihood of success and risk tolerance of the employer. Ultimately, the approach is data driven and this is why data quality and the assumptions are key to making the final decision on the contribution rate approach.

4.0 Financial Implications

- 4.1 Employer contributions are the single largest component in the Pension Fund's yearly cash inflow. Appropriate contribution rates by the various employers is necessary for the Pension Fund to improve its funding level.
- 4.2 These contribution strategies will bind the employers to differing amounts over the next three years. For many of these employers, it will significantly affect their budgetary position, therefore, it is important to have regard to affordability. This is why one reason why different employers will have different approaches to contribution rates.

5.0 Legal Implications

- 5.1 This is a statutory process conducted every three years that ensures the Pension Fund is both compliant with regulation and has a viable long-term funding strategy. Members are reminded to remember that their responsibility is to the Pension Fund.

5.2 The Financial Strategy Statement (FSS) is required by LGPS Regulations. The Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

6.0 Diversity Implications

6.1 Not Applicable

Contact Officers

Persons wishing to discuss the above should contact Conrad Hall, Chief Finance Officer, Investment and Pensions Section, Finance, on 020 8937 6528, conrad.hall@brent.gov.uk at Brent Civic Centre

CONRAD HALL
Chief Finance Officer

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 Brent	<p style="text-align: center;">Pension Board 13 December 2016</p> <p style="text-align: center;">Report from the Chief Finance Officer</p>
For Information Purposes	Wards affected: ALL
Actuarial Contract Re-procurement	

1.0 Summary

- 1.1 The purpose of this report is to note that the actuarial contract is reaching the end of the contract. The Pension Fund Sub-Committee have agreed to extend it past year end to prevent any potential conflict and to have a full procurement process that results in a 3 year contract that does not end during the Triennial Review in future years.

2.0 Recommendations

- 2.1 To note the report.

3.0 Detail

- 3.1 The actuarial contract ends in April 2017. This conflicts with the Triennial Review process. The contract currently covers the actuarial contract for the valuations and advice on various decisions.
- 3.2 The approximate value of the base contract is £600k for 3.5 years and therefore above the limit, through which a report must be taken to the Sub-Committee.
- 3.3 Officers intend to have a robust full procurement process that ensures the Pension Fund achieves a high quality but value for money service for the following three years.
- 3.4 The procurement process has already started with identifying the appropriate framework contract that is OJEU compliant and is most appropriate for achieving the intended result. The National LGPS Frameworks, managed through Norfolk, is the preferred option currently due to the quality of its

framework documents. Finance has consulted with Procurement on the appropriate process and actions required. However, the framework option has not been finalized and any changes would automatically come back to committee.

- 3.5 The timing of the procurement process has not been well-regarded by officers, who would prefer that it took place after the Triennial Review and end of year accounts, so that any potential conflict of interest was removed. It also adds significant amounts of additional work at a time when their focus needs to be on the aforementioned items.
- 3.6 Therefore, officers have proposed having a contract that ends on September 30th, 2020 to prevent any conflict with the next Triennial Review.
- 3.7 Ensuring that the procurement process of the actuarial contract is compliant with regulation and follows due process is the function of the Pensions Board.
- 3.8 Officers will review the potential for having an extension within the contract for an additional 3 years.

4.0 Financial Implications

- 4.1 The value of the contract is anticipated to be approximately £600k but the precise amount is subject to requests for professional advice.

5.0 Legal Implications

- 5.1 The National LGPS framework is compliant with OJEU and LGPS regulations. As the amount is over the OJEU level, there is a requirement to use either an OJEU compliant framework or undertake a full OJEU process by the administering authority. This might take a year.

6.0 Diversity Implications

- 6.1 Not Applicable

7.0 Staffing/Accommodation Implications (if appropriate)

- 7.1 Not Applicable

Background Papers

Contact Officers

Persons wishing to discuss the above should contact Gareth Robinson, Investment and Pensions Section, Finance, on 020 8937 6567, gareth.robinson@brent.gov.uk at Brent Civic Centre

CONRAD HALL
Chief Finance Officer



Pensions Fund Board
23 November 2016

Report from the Director of HR &
Organisational Development

For Information

Wards affected:
ALL

Capita's LGPS Pension Administration Performance 2016

1.0 Summary

- 1.1 The Local Government Pension Scheme (LGPS) is a contributory Career Average Revalued Earnings (CARE) Defined Benefit scheme whereby pensions are calculated (and revalued) on a yearly basis, based on the pensionable pay members' receive for each year. Prior to 1st April 2014, the LGPS was a Final Salary Defined Benefit Scheme, meaning that members' pensions were calculated according to their length of service in the LGPS and their final pay at the date of ceasing active membership of the scheme.
- 1.2 This report includes not only the LGPS pension scheme and other benefits for Brent Council pensionable employees but also the other scheduled and admitted bodies within the borough area; with the exception of teachers who are covered under their own national pension scheme.
- 1.3 The administration of the LGPS scheme locally for Brent Council was transferred to Capita Hartshead (now Capita Employee Benefits), on 1st October 2011. The council is now in the fifth year of a six year contract. The pension fund has 6,140 contributors, 6,241 pensioners and 7,863 deferred pensioners¹.
- 1.4 This report reviews the performance of the Capita Employee Benefits against the contract year during October 2015 – September 2016 and focuses on:
 - Re-enrolment Performance
 - Annual report on Capita's Performance
 - Annual Benefits Statements

2.0 Recommendations

¹ Brent Pension Fund, Annual Report and Accounts 2015/16.

2.1 The Board Members note the contents of this report.

3.0 Re-enrolment Performance

3.1 The government introduced legislation designed to help people save more for their retirement. It requires all employers to enrol their workers into a workplace pension scheme if they are not already in one. Automatic enrolment has been designed to overcome the fact that many workers have been missing out on valuable pension benefits because they didn't apply to join their employer's scheme, or their employer didn't offer them access to a workplace scheme.

3.2 The Council's staging date for automatic enrolment was 1st March 2013, however it is a requirement to undertake re-enrolment of staff every three years. The Council decided its re-enrolment date for this purpose was 1st February 2016. The Pensions team assessed all eligible jobholders, non-eligible jobholders and entitled workers who were eligible for auto-enrolment from the 1st February 2016 and enrolled any eligible jobholders into the Local Government Pension Scheme, the Teacher's Pension Scheme or the NHS Pension Scheme.

3.3 The Council enrolled staff directly employed and also those staff employed in community schools who are also employees of the Council. Staff in voluntary aided schools, foundation schools and any academy were not enrolled as they are not employees of the Council.

3.4 Confirmation of re-enrolment went to the Pensions Regulator on 29th March 2016. The council had to report to the Regulator that Strictly Education did not enrol a number of staff on 1st February 2016. The number of staff not enrolled was 102. The matter was resolved as the staff were subsequently contacted by Strictly Education, received an apology and enrolled in March 2016 with adjustments made to the employees' pensions as necessary.

Number of eligible jobholders automatically re-enrolled into the Local Government Pension Scheme	259
Number of eligible jobholders automatically re-enrolled into the Teacher's Pension Scheme pension scheme	147
Number of eligible jobholders automatically re-enrolled into the National Health Service Pension Scheme	2
Number of workers already active members of a qualifying scheme on 1 st February 2016	4184
Number of eligible Jobholders to whom the defined benefit or hybrid scheme transitional arrangements have been applied	0
Number of workers who do not fall into the above categories	188
Total number of workers in employment on 1 st February 2016 (your re-enrolment date)	4780

4.0 Contract Performance 1st October 2015 to 30th September 2016

4.1 Capita's overall performance in the contract year was 94.7%, below the agreed standard of 100%. The performance demonstrated some real concerns when subjected to further analysis especially around payments. This is summarised in the key performance measures table below.

- 4.2 A major contributory factor to many problems the Council encountered this year were due to Capita migrating the Brent administration contract from Surbiton to their public sector pensions centre in Darlington. Capita felt it would improve performance but in fact it had the opposite effect. This was because Capita staff with the skills and knowledge previously working on the Brent contract left when the centre was moved to Darlington which meant a break in continuity and familiarity with Brent pension arrangements. Capita are in the process of rectifying the underperformance in respect of recent months following the office move.
- 4.3 Every month reports are produced to assist with monitoring the performance of the contract looking at both the individual month and the overall trend, the focus is primarily on three key areas:
- Timeliness of payments
 - Percentage of core KPI's (accuracy and timeliness) delivered in reference to the contract rebate scheme
 - Issues logs

Key performance measures and outcomes (1st October 2015 to 30th September 2016)

Case Type	Number of Cases	Number of Cases Correct/On time	Performance
Timeliness of cases involving payments	604	383	63.41%
Accuracy of cases involving payments	604	603	99.83%
Timeliness of Correspondence answered	1327	1289	97.14%
Accuracy if individual estimates and transfer quotes	920	920	100.00%
Timeliness of estimates and transfer quotes	9209	872	94.786%
Accuracy - Deferred Benefits (Early Leaver)	564	563	99.82%
Timeliness - Deferred Benefits (Early Leaver)	564	536	95.047%
Timeliness of new starters	980	973	99.29%
Total	6483	6139	

Overall Performance % 94.7%
Based on Accumulative figure to date

5.0 Annual Benefit Statements (ABS)

- 5.1 Under Regulation 89 of the Local Government Pension Scheme Regulations 2013, there is a requirement to issue Annual Benefit Statements to current contributors by 31st August each year following the end of the tax year in March. There is also a requirement under the Public Service Pensions Act 2013 to notify the Pension Regulator of failure to comply with the law.

- 5.2 There were difficulties in complying with the requirement to issue ABS by the deadline, and as a result only 66% of current contributors were sent with 73% of deferred membership receiving an ABS. It is proposed that a further 782 statements will be distributed by 30th November which will push compliance to in excess of 78% of active membership.
- 5.3 The council will need to report this under performance to the Pension Regulator together with plans about how full compliance will be achieved in the future in liaison with Capita, schools and other employers.
- 5.4 The breakdown of performance on ABS is given below.

Active Membership

Annual Benefit Statements sent to active members by 31 st August 2016.	4,035
Annual Benefit Statements that will be sent to active members by 30 th November 2016 but were delayed due to queries that have now been resolved.	782
Total number of active members as at April 2016	6,140
Total number of ABS not sent out	1,323

There are a range of issues behind this. There are a number of active pension members who have left or retired between April and the end of August 2016. Any leaver would either become a pensioner, in which case they would not receive an ABS or a deferred member in which case they should still receive an ABS. In addition, there are a number of records that require further investigation due to low or no salary information. This group could be leavers that the pension administrators have not been notified about by the various employers/schools. Capita are currently undertaking a more detailed breakdown of the 1,323 active members without an ABS.

- 5.5 Of the deferred members, the latest position from Capita as at 3rd November 2016 is given below.

Deferred Membership

Annual Benefit Statements sent to deferred by 31 st August 2016.	5,701
Total number of deferred members as at April 2016	7,863
Total number of ABS not sent out. The reasons for this are given below.	2,162
No current address. Often, when deferred members move, they do not inform the pension scheme of their new address so over a number of years, the pension scheme will lose track of individuals that do not update their address.	1,424
Capita identified these deferred members as requiring further investigation. For example, potential duplicate records, shell records, records incorrectly set up.	656
Records that do not have completed common data	82

The issue of members (deferred) without a current address is an issue that faces all pension schemes. Capita have provided a quotation to undertake the data cleansing of addresses which is being considered by officers. The quote ranges from £5,739 for a minimum check through to £35,600 for manual tracing of each case. There is a requirement under the Pension Regulations to have accurate common data of which the correct address is one item. In many cases

deferred benefits will not be eligible to be paid for a number of years after a member has ceased employment.

- 5.6 A key function of the pension service is that benefits and other important payments are accurate and timely. The contract service standards require 100% accuracy and timeliness.

6.0 Legal Implications

- 6.1 The Public Service Pensions Act 2013 enables The Pensions Regulator to request information, issue Improvement Notices and civil penalties and carry out inspections. The Regulator has statutory objectives which include promoting and improving understanding of the good administration of work-based pensions to protect member benefits.

- 6.2 Part of the functions of the Pensions Board is to secure compliance with any requirements imposed by the Pension Regulator in relation to the scheme; and to ensure the effective and efficient governance and administration of the scheme. The Pension Regulator's Draft Code of Practice stresses the need for Pensions Boards to exercise effective oversight for the Scheme's administration in circumstances where the day to day running is outsourced to an external provider and states "The legal requirements relating to internal controls apply equally where schemes outsource services connected with the running of the scheme Schemes should ask their service providers to demonstrate how they comply with the legal standard of adequate internal controls for the services they provide."

7.0 Financial Implications

- 7.1 There are no direct financial implications.

8.0 Diversity Implications

- 8.1 No adverse diversity implications have been identified.

9.0 Staffing/Accommodation Implications (if appropriate)

- 9.1 Contained throughout the report.

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